

EFFECTS OF THE 1983 DROUGHT ON AMERICAN AGRICULTURE

HEARINGS
BEFORE THE
SUBCOMMITTEE ON
AGRICULTURAL PRODUCTION, MARKETING,
AND STABILIZATION OF PRICES
OF THE
COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE
NINETY-EIGHTH CONGRESS
FIRST SESSION
OCTOBER 20, 1983
AND
OCTOBER 31, 1983—MEMPHIS, TENN.

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1984

28-375 O

5161-9

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

JESSE HELMS, North Carolina, *Chairman*

BOB DOLE, Kansas
RICHARD G. LUGAR, Indiana
THAD COCHRAN, Mississippi
RUDY BOSCHWITZ, Minnesota
ROGER W. JEPSEN, Iowa
PAULA HAWKINS, Florida
MARK ANDREWS, North Dakota
PETE WILSON, California
ORRIN G. HATCH, Utah

WALTER D. HUDDLESTON, Kentucky
PATRICK J. LEAHY, Vermont
EDWARD ZORINSKY, Nebraska
JOHN MELCHER, Montana
DAVID H. PRYOR, Arkansas
DAVID L. BOREN, Oklahoma
ALAN J. DIXON, Illinois
HOWELL HEFLIN, Alabama

GEORGE S. DUNLOP, *Chief of Staff*

J. ROBERT FRANKS, *General Counsel*

CARL P. ROSE, *General Counsel and Staff Director for the Minority*

SUBCOMMITTEE ON AGRICULTURAL PRODUCTION, MARKETING, AND STABILIZATION OF PRICES

THAD COCHRAN, Mississippi, *Chairman*

BOB DOLE, Kansas
RUDY BOSCHWITZ, Minnesota
MARK ANDREWS, North Dakota
JESSE HELMS, North Carolina

PATRICK J. LEAHY, Vermont
WALTER D. HUDDLESTON, Kentucky
EDWARD ZORINSKY, Nebraska
JOHN MELCHER, Montana
ALAN J. DIXON, Illinois

CONTENTS

	Page
Cochran, Hon. Thad, a U.S. Senator from Mississippi, opening statement.....	1, 41
Huddleston, Hon. Walter D., a U.S. Senator from Kentucky	2
Jepsen, Hon. Roger W., a U.S. Senator from Iowa	5
Helms, Hon. Jesse, a U.S. Senator from North Carolina.....	7

CHRONOLOGICAL LIST OF WITNESSES

WASHINGTON HEARING

Naylor, Hon. Frank, Under Secretary for Small Community and Rural Development, U.S. Department of Agriculture	9
Goldberg, Hon. Richard, Deputy Under Secretary, International Affairs and Commodity Programs, U.S. Department of Agriculture	14
Irwin, Dr. George, Chief Economist, Farm Credit Administration	32
Duncan, Dr. Marvin, vice president and agricultural economist, Federal Reserve Bank of Kansas City, Kans.....	34

TENNESSEE HEARING

Ross, Jim Buck, commissioner of agriculture, State of Mississippi.....	42
Odom, Bob, commissioner, Louisiana State Department of Agriculture	45
Arant, Hugh, president, Mississippi Farm Bureau Federation.....	48
Weems, Ralph, president, American Soybean Association	52
Barr, John S. III, chairman, production steering committee, National Cotton Council	54
Williams, Cecil, Jr., executive vice president, Agricultural Council of Arkansas.....	55
Johnston, Wayne, Tippah County, Miss	59
Howarth, Johnny, president, Mississippi Cattlemen's Association	60
Walker, William H., commissioner, Tennessee Department of Agriculture, presented by David Waddell	63
Willis, Tommy, president, American Agriculture Movement	64
Flowers, Dick, president, Delta Council, Stoneville, Miss.....	69
Brown, Billy Ross, chairman, Production Credit Association, Oxford, Miss	71
Hamilton, Jack S., Lake Providence, La	72

APPENDIX

WASHINGTON HEARING

Pryor, Hon. David H., a U.S. Senator from Arkansas, statement.....	77
Grassley, Hon. Charles E., a U.S. Senator from Iowa, statement, with attachments	77
Irwin, Dr. George D., Director, Planning/Analysis and Chief Economist, Farm Credit Administration, statement.....	88
Duncan, Marvin, vice president and economist, Federal Reserve Bank of Kansas City	97

TENNESSEE HEARING

Pryor, Hon. David H., a U.S. Senator from Arkansas, statement.....	104
Bumpers, Hon. Dale, a U.S. Senator from Arkansas, statement.....	104
Ross, Jim Buck, commissioner, Mississippi Department of Agriculture and Commerce, statement	106

IV

	Page
Williams, Cecil, Jr., executive vice president, Agricultural Council of Arkansas, statement	109
Howarth, Johnny, president, Mississippi Cattlemen's Association, various statements from constituents.....	110
Scott, Milton, public affairs department, Arkansas Farm Bureau, statement	115
Holland, Steve, Mississippi State Representative-Elect, statement	115
McKinley, Avery H., O.D., Natchez, Miss., letter dated October 29, 1983, to Senator Cochran, with attached exhibits A and B	116
Crain, W. Floyd, letter dated October 31, 1983, to Senator Cochran	120

EFFECTS OF THE 1983 DROUGHT ON AMERICAN AGRICULTURE

THURSDAY, OCTOBER 20, 1983

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met at 10:08 a.m., in room 328-A, Russell Senate Office Building, Hon. Thad Cochran (chairman of the subcommittee) presiding.

Present: Senators Cochran, Helms, Huddleston, and Zorinsky.
Also present: Senators Jepsen and Pryor.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. The subcommittee will please come to order.

I want to welcome all of you to the initial hearing this subcommittee is conducting to assess the impact of the drought that has occurred throughout the country this year, on farmers, farm production, and related farm businesses.

Some have said this year's drought is the worst this country has endured in 50 years. It certainly does merit the immediate attention of the Government and the Senate Committee on Agriculture, Nutrition, and Forestry to try to determine whether or not the disaster assistance programs that are in place right now are adequate to respond to the need that exists in the agricultural sector. I am interested, too, in seeing whether the Federal crop insurance program has worked by responding to farmer's needs for benefits as a result of this year's drought, or whether changes are needed to make the program provide necessary assistance in times of natural disasters.

Incidentally, the ranking minority member of the committee, Senator Huddleston, has introduced a drought aid bill which I have been pleased to cosponsor. It is S. 1949. This bill contains provisions to defer loans, make advance deficiency payments, provide for emergency livestock feed assistance, direct the use of economic emergency loan assistance, change operating loan limits, reamortize and reschedule existing loans, and others. These provisions, I am convinced, may very well be needed in order to help pull us through this very severe year in agriculture caused by the drought conditions that exist around the country.

I am happy that we have as our opening witness at these hearings a member of the Senate Committee on Agriculture, Senator Roger Jepsen of Iowa. There are others who have indicated an interest in presenting testimony, if not in person, then through written statements. We have the Department of Agriculture officials here to discuss existing programs and the intentions of the administration in response to this need that exists.

Senator Huddleston, do you have an opening statement or any comments that you would like to make at this time?

**STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR
FROM KENTUCKY**

Senator HUDDLESTON. Thank you, Mr. Chairman.

I would like to make a rather full statement on the drought because I think the gravity of the situation that we are confronted with merits it at this particular time.

I think we all recognize that the drought following 2 consecutive years of record low net farm income has left many farmers facing the prospect of foreclosure or liquidation of their farming operations.

Federal agricultural credit programs and other farm protection programs must be adjusted immediately to provide emergency assistance to farm operations who are experiencing temporary financial hardship through no fault of their own. In addition, many farm-related businesses and rural communities are also in need of assistance.

During the past several weeks, I have met with administration officials to discuss the drought situation and the steps that should be taken to provide relief to farmers and others. To date, I have been disappointed in the administration's response to this potential crisis situation. For that reason, I have introduced S. 1949, the Drought Relief Act of 1983, which you referred to and which I am very pleased that the distinguished chairman has signed as a co-sponsor, as have other distinguished members of this committee.

We have incorporated several provisions of S. 24, the Emergency Agricultural Credit Act of 1983, into S. 1949. The Emergency Agricultural Credit Act of 1983 is legislation that several of my colleagues and I introduced earlier this year and that the Agriculture Committee reported out back on March 18. I have made some significant modifications in S. 24, as reported, to reduce possible costs, to provide assistance specifically for drought-affected farmers, and to address other concerns that have been raised. These modifications have been included in S. 1949.

Outlays under the other provisions of S. 1949 will be relatively small in comparison to the losses to U.S. agriculture caused by the drought. The bill, for the most part, involves lending activities, with the loans made from revolving funds that are replenished by loan repayments. The advance deficiency payment provision involves only a shifting of the time at which deficiency payments are made—it does not increase the payments. The feed grain provision, while having a budget impact, involves no outlays at all.

Specifically, the bill will require the Secretary to make advance deficiency payments to producers of 1984 crops for which there will

be acreage reduction programs and for which deficiency payments are likely to be required.

In terms of credit assistance, there are several provisions in the bill that provide needed assistance through the Farmers Home Administration.

Included in the bill is a deferral provision that will require the Secretary of Agriculture to identify Farmers Home Administration farm loan borrowers who are faced with foreclosure or liquidation for financial reasons. Under the provision, after having exhausted all other servicing tools for such borrowers, the Secretary will be required to grant a deferral if the borrower can show to the satisfaction of the Secretary that:

First, he has exercised good management practices;

Second, due to circumstances beyond his control, he is temporarily unable to continue making payments; and

Third, he has a reasonable chance of repayment of the loan after the deferral period ends.

The bill will make additional changes in Farmers Home Administration programs that include:

Extending discretionary authority to implement the insured economic emergency loan program, with preference to be given to farmers affected by the drought;

Raising the operating loan limits to \$300,000 for insured loans, and to \$400,000 for guaranteed loans;

Requiring that loan funds be made available for the limited resource farmer programs in this fiscal year;

Requiring that certain Farmers Home farm loans be reamortized or rescheduled at the original rate of interest or the current rate, whichever is lower;

Extending the maximum repayment period for operating loans from 7 to 15 years;

Requiring that natural disaster emergency loans be made available based on individual loss;

Requiring the use of funds allocated to the business and industrial loan guarantee program to help small rural businesses adversely affected by the drought and the payment-in-kind program; and

Modifying the rural water and waste disposal facility loan and grant program to provide:

First, a scale of graduated interest rates with more communities made eligible for lower interest rate loans;

Second, a grant distribution formula based on a community's size and median household income;

Third, a project selection system that uses three basic need factors in determining which communities get preference for the available assistance. These factors include: potential threats to community health, community size, and median household income;

Fourth, authorization for a technical assistance program to aid communities in obtaining impartial advice on the type and size of facilities needed; and

Fifth, establishment of a predevelopment fund to help communities with special needs.

The bill will also require the Secretary of Agriculture to make low-grade corn held by the Commodity Credit Corporation available

for sale to drought stricken livestock producers. The corn would be sold at a price equal to 75 percent of the basic county loan rate.

This provision would be of particular assistance to hard-pressed livestock producers in States, such as Texas and Iowa, in which the drought has destroyed animal feed crops. In Texas, for example, the Commodity Credit Corporation currently is storing 21 million bushels of grade 4 and 5 corn in warehouses. Another 17 million bushels of low grade CCC corn is available for immediate use in Iowa.

The provision of the bill requiring that the Farmers Home Administration make natural disaster emergency loans available based on individual loss, without regard to area designations, simply makes clear the intent of Congress. Although Congress amended the Consolidated Farm and Rural Development Act in 1978 and deleted all references to area designations, the Farmers Home continues to make county disaster designations.

A report issued by the Comptroller General stated that this practice was, and I quote, "inconsistent with congressional intent and in violation of the act," end of quote. Administration officials have testified that Farmers Home makes natural disaster emergency loans available to individual farmers not located in a designated county when a small number of farmers in the county suffer losses in excess of 30 percent but the overall county loss does not exceed 30 percent. If Farmers Home is, in fact, making loans available in such cases, this provision in the bill will not result in any additional cost but will eliminate the appearance of inequity and political favoritism.

Under the deferral provision of the bill, no principal or interest owed to Farmers Home by borrowers is forgiven. In addition, the bill restricts the number of borrowers who may apply for a deferral, and the burden of proof to qualify for a deferral rests solely on the borrower.

According to the Congressional Budget Office, a deferral provision like the one contained in the bill would be much less costly than the original provision in S. 24. CBO estimates the revised deferral provision would result in a maximum of \$700 million in delayed payments if all persons eligible got deferrals. This compares to an estimated maximum of \$2.6 billion in delayed payments under the original provision of S. 24.

The bill also addresses the administration's other concern about the deferral provision contained in S. 24. The administration feared that large numbers of Farmers Home borrowers could have filed lawsuits seeking loan deferrals. The bill resolves that issue by including a provision that effectively limits the granting of a deferral to borrowers identified by the Secretary as being faced with foreclosure or liquidation.

I share the administration's concern about involving the Farmers Home Administration in excessive litigation. Farmers Home is already being sued in numerous district courts and in several bankruptcy proceedings because its present foreclosure policy is not clear to the public and is too subjective and open to interpretation of Farmers Home employees at the county level.

In addition, the U.S. District Court for the District of Columbia recently found that the administration acted illegally by not imple-

menting the economic emergency loan program during 1982; and the U.S. District Court for the Western District of Missouri has found that Farmers Home acted improperly by not making natural disaster emergency loans available based on individual losses.

By adopting the changes in the Farmers Home programs provided for in the bill, Congress can resolve the existing confusion, eliminate the appearance of inequity, and provide much needed emergency credit assistance to farmers, farm-related businesses, and rural communities.

In total, the provisions of S. 1949 provide a comprehensive drought assistance plan. The bill will provide the tangible and sensible emergency drought assistance that our farmers, farm-related businesses, and rural communities need.

I look forward to hearing the administration's views and the views of the other witnesses on this legislation and the effects of the drought in general.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you very much, Senator Huddleston. I appreciate your comments.

Senator Jepsen.

STATEMENT OF HON. ROGER W. JEPSEN, A U.S. SENATOR FROM IOWA

Senator JEPSEN. Thank you, Mr. Chairman.

I, too, would like to commend you for holding this hearing today to evaluate the impact of the drought on American farmers and assess the assistance that has been provided.

For many weeks now, we have been hearing about and seeing firsthand the disastrous conditions caused by this summer's drought. This was the worst drought in 50 years and has devastated many agricultural areas around the country.

I found out just how serious the situation was during the August congressional recess when I toured the drought areas in my State of Iowa.

I commend Agriculture Secretary John Block for his action in assessing and addressing the problems farmers are experiencing as a result of the drought. Through his leadership, the Department of Agriculture has taken several positive steps to help alleviate the effects of the drought. However, more needs to be done if we expect agriculture to undergo a significant recovery.

Congress must hold the administration's feet to the fire on drought disaster assistance. I have consistently stressed the need for the Department of Agriculture to implement all programs within the Secretary's authority and I have focused attention on the seriousness of the problem for many of our farmers.

Through these efforts, the Secretary released lands for grazing idled under the PIK program, and also permitted baling of hay for livestock feed on PIK conservation acres. The Secretary also instructed the Farmers Home Administration to lower the interest rate on disaster loans from 8 percent to 5 percent for the first \$100,000 borrowed.

Yesterday, I, along with my colleague, Senator Grassley, introduced the Drought Assistance Act of 1983 which provides substan-

tial help to farmers without costing the Federal Government a great deal of money.

The act requires the Secretary of Agriculture to exercise authority already granted him in existing legislation to carry out the emergency livestock feeding program.

During debate on the dairy compromise bill recently passed by the Senate, I helped attach an amendment which would open huge grain reserves to drought stricken Iowa livestock producers. I am hoping that the House will act soon on this legislation.

However, regardless of the outcome of the dairy compromise bill, all efforts should be made to encourage the Secretary of Agriculture to implement programs already on the books. The Drought Assistance Act will send a signal to the Department of Agriculture that this feed grain program must be implemented to assist the farmers suffering from this summer's devastating drought.

It is important to note that the Drought Assistance Act does not authorize new spending for the feed program, but reallocates an estimated \$535 million in unspent deficiency payments in the USDA budget for fiscal year 1983.

Another feature of the Drought Assistance Act important for all drought-affected farmers is the schedule of graduated interest rates that would be set up.

Under this schedule, eligible farmers unable to obtain credit elsewhere will qualify for loans at 3 percent for the first \$50,000, 5 percent for the second \$50,000, and 8 percent for any amount exceeding \$100,000.

Although the Farmers Home emergency rate was recently lowered to 5 percent, the flexibility of the graduated interest rate will provide maximum benefit to disaster-affected farmers.

One of the concerns voiced over and over again by Iowa farmers during my inspection of drought-affected counties in Iowa was the timelag between disaster designation and actual assistance from the Federal Government. We need to develop regulations which will, in time of catastrophic disaster, cut through redtape and get assistance directly to our Nation's farmers immediately.

When our farmers are hurting, the channels to Washington should be wide open; in fact, we need to change our laws permitting officials at the State level to make the basic decisions so crucial to the well-being of our farmers.

Another issue of particular concern to me—a concern I have expressed to Secretary Block—is the adequacy of the Federal Crop Insurance Corporation, FCIC.

I have urged Secretary Block to initiate an internal review of the FCIC. I have also tasked GAO to investigate the FCIC. In addition, I am working with Chairman Helms to hold congressional hearings on the FCIC.

This drought will be the first major test of the crop insurance legislation passed in 1980. This Congress has a responsibility to determine why a majority of our Nation's farmers are not covered by Federal crop insurance. Is the program too expensive for the farmer? Does the program realistically meet the needs of the farmers? I am certain that we will know many of these answers by the first of the year.

I thank you again for your foresight and your diligence in providing this opportunity to air some of the problems that need attention and need it immediately. I look forward to the testimony from our other witnesses.

I thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator.

I know that Senator Jepsen is the chairman of the Joint Economic Committee, and has to chair a hearing at 10:30. He has the Chairman of the Federal Reserve, Mr. Volcker, before him. That ought to be an interesting experience. We know you cannot remain with us for the balance of the hearing, but I really appreciate your being here to be the leadoff witness in our hearing today.

Senator JEPSEN. Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator.

We are happy that Senator Helms, the chairman of the full committee, is here to help us start these hearings. This is the first in what probably will be several hearings that will be held here and around the country to try to get at the problems that exist as a result of the serious drought that the country has sustained this year.

Mr. Chairman, you are recognized.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The CHAIRMAN. Mr. Chairman, I, too, want to commend you for scheduling this hearing. I apologize for being a few minutes late.

If I may digress a moment. Last week in my home State I ran into an 82-year-old active farmer. I hope to the good Lord that I live as young as he does when I am 82, and it is getting closer all the time.

But the conversation went along the lines, gee whiz, there are a lot of problems in farming. He said, yes, Jesse—they do not call me Senator down there, they call me Jesse, and I appreciate that—but he said, you know, there have always been problems. He said if we put our minds to it, and have faith, and work together, we will work them out. But he said I will tell you what to do, when you get a little older—I especially appreciate that, since I turned 62 a couple of days ago—he said when you get a little older, you will learn to look around and you will find people worse off than you are.

That came to mind when I attended a Health and Human Services Committee hearing to present a most attractive young North Carolina couple. They have an 8½-month-old son, named Josh. Josh has, at best, 3 or 4 months to live, unless he can get a liver transplant. That is the bad news. The good news is he is No. 1 on the list at the University of Minnesota hospital, and they are looking for a donor.

So we all have problems, Josh has a problem. I am not sure that I would know how to conduct myself if one of my children were in that situation. But this is a great country, and there is a great deal of love and compassion, and a willingness to work and cooperate and coordinate, and I think we are going to pull this thing out, but

in any case, Mr. Chairman, I do appreciate your calling this hearing, and the subsequent ones, which you will hold in the future.

Now, the information to date shows that this year's drought is, without doubt, the worst in half a century. Everybody knows that. We have seen a significant drop in production, in all of the major commodities, in fact, the crop production in my own State of North Carolina is down more than the national averages.

I think the administration deserves to be recognized and commended for doing the best it can to move this vehicle of coordination and cooperation and assistance as rapidly as may be possible.

We have already discovered that while there is a great deal of distress, a lot of farmers, producers, had their losses at least minimized to some extent due to the participation in the PIK program and the Federal crop insurance program. But that does not help the other farmers who find themselves in serious financial difficulties as a result of the drought.

So we have a mixed bag, and I guess what we are trying to do is to handle, to coordinate, cooperate, and help as many of the people as possible.

And from your hearing today, Mr. Chairman, I hope we will be able to assess the impact the drought has had on the farmers and ranchers, and evaluate the assistance provided by USDA, and make a pass at trying to determine what reasonably can be done in terms of additional assistance.

The complete picture of this situation is absolutely essential, so that drought assistance is available to farmers who need it, and it also should be kept in mind that drought assistance must be provided within sound parameters. We cannot go riding off into the horizon in terms of the scope of it.

We certainly do not want to increase the possibility of more bureaucratic redtape, do we, Senator Huddleston? We have enough of that. We have a surplus of it. We must use extreme caution to assure that we just do not try to throw money at the problem, but instead try to be helpful and cooperative to the one segment of our economy, which in my judgment, is our last lever in international relations.

Now, we talk about all of our foreign policy, and the rest of it, Mr. Chairman, but if you think about it, the American farmer's ability to produce is the last and foremost instrumentality that we have in dealing with a great many of our world problems.

But in any case, I do appreciate your calling the hearing, and letting me attend.

Senator COCHRAN. Well, Mr. Chairman, I appreciate your being here today, and helping us begin this series of hearings with your fine statement. We appreciate your support, and your authorizing the holding of the hearings in the timely fashion which you have.

We are happy to have Senator Pryor attend the hearing.

Senator, we are going to your part of the country on Monday, October 31, for the next hearing of the subcommittee, to look at the problem as it exists in the Midsouth. We hope you will be able to join us on that occasion.

Before we hear from the administration witnesses, I want to recognize Senator Pryor for any statement he might have.

Senator PRYOR. Thank you, Mr. Chairman.

Is that Halloween day?

Senator COCHRAN. We will wear a mask.

The CHAIRMAN. It is not on a Saturday, is it?

Senator COCHRAN. It is on a Monday. It is supposed to be on Monday.

The CHAIRMAN. I know David Pryor will be watching the University of Arkansas.

Senator COCHRAN. He has quit watching them this year, Mr. Chairman.

Senator PRYOR. After Saturday——

The CHAIRMAN. Being a Wake Forest fan, I know how you feel.

Senator PRYOR. Mr. Chairman, I do have a statement, not to read, but to submit,¹ and I do appreciate you, Senator Helms, and Senator Huddleston, holding this hearing. I will just await the testimony.

Senator COCHRAN. We will have it entered in the record and we appreciate your providing a copy.

We have Richard Goldberg, Deputy Under Secretary for International Affairs and Commodity Programs as our first witness, but I see we have Frank Naylor here also.

Richard, do you want to be the first witness, or do you want to defer to the Under Secretary? Is that protocol?

The CHAIRMAN. Why not line them up?

Senator COCHRAN. Yes, will both of you come forward?

Mr. Naylor, please proceed?

STATEMENT OF HON. FRANK NAYLOR, UNDER SECRETARY FOR SMALL COMMUNITY AND RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE

Mr. NAYLOR. Thank you, Mr. Chairman.

I want to express my appreciation to you. As you know, United Airlines did a good job this morning. We got in on time, and I was glad that we were able to get here promptly, to be able to participate in the hearing.

I think it both prudent and helpful for this committee to call these hearings, and allow us the opportunity to examine with you what we are doing in dealing with the problems that we find ourselves faced with, with regard to this drought, which certainly in many parts of the country is one of the worst on record, if not the worst perhaps in the last 50 years.

I would like to take just a few moments, if I may, Mr. Chairman, to give you some indication of the actions which have been taken, and what Farmers Home Administration and the Federal Crop Insurance Corporation are doing, and will be doing in the weeks and months ahead.

On September 2, Secretary Block called a meeting of Governors and legislators, Members of Congress, in Chicago, at which time we discussed the drought, encouraged them to move promptly to request designations for emergency loan assistance, and other assistance being provided by the Department, announced several steps at that time to expedite and provide assistance on a timely basis.

¹ See p. 77 for the prepared statement of Senator Pryor.

We had estimated at that point that there would probably be about 1,300 counties in the drought area across the Nation, which would be requested by Governors for assistance. As of today, we have received, actual requests by the Governors, 1,438 counties for consideration of drought assistance.

In the process, Secretary Block indicated it was our intent to see that these designation requests move swiftly through our process and review; and we have done that generally within a week to 10 days after receiving the Governors' requests, and the detailed damage assessment reports. To date, we have designated 871 of the 1,438 counties requested, and we would expect to have largely completed this process within a matter of another week to 10 days, with regard to the drought area.

I think it is important to keep in mind the steps that we have taken to insure that we are prepared to deal with the number of loans which are expected.

Mr. Chairman, you had asked me earlier, by written correspondence, how many borrowers had actually been in prospectively for emergency loans, but as I am sure you are aware, most producers wait until they begin their planning for their next operating year to come in and actually file an application. The important thing right now, from a planning perspective, is to be able to know whether or not loans will be available, and who to turn to, and to begin to prepare and plan for their next year's operation.

Today, except in areas where only physical damage occurred, and those are very sparse, we have had very little activity, other than inquiries, with regard to whether or not a designation has been completed, but we do expect a substantial upsurge of requests for emergency loans this coming January. We are in the process of mounting a campaign throughout the country to encourage our producers, particularly those who may need emergency loans, to come in early this year, and not wait until after the first of the year, as traditionally is the case, and allow us to begin to assist them during the months of November and December.

We think that will substantially reduce the backlog which may occur, and normally does occur, as you see all producers hit our door at about the same time.

We have already directed, and authorized all of our offices throughout the country, to begin to hire and train additional personnel necessary to timely process these applications. That process is well underway and working quite well.

We have, in addition, happily been able to move forward on some automation of our loan processing; by the middle of November all of our Farmers Home State offices will have direct computer links with our Finance Office in St. Louis. We expect that to cut processing time in half, in terms of being able to get checks out, and to get loans obligated. I think that will be a major improvement, particularly next spring, as the peak workload begins to come to bear.

We believe these steps, along with the reduction of the interest rate, the reactivation in December of the economic emergency loan program, through September 30 of 1984, provide a series of steps which, properly managed and properly done, will be of substantial assistance to producers. They will be worked and coordinated very closely with the commercial lending sector, and the Farm Credit

System, both of which have worked diligently and closely with us to insure that we provide, and have the capacity to provide, adequate credit.

We continue to be deeply concerned, however, that we maintain proper perspective on the proper use of credit, to use it in a constructive fashion, that is genuinely of assistance to producers, and does not complicate their lives, while improving their situation.

We currently, in the Farmers Home Administration, have approximately 271,000 farmers, unduplicated caseload, to whom we have made loans of one type or another. Of these, there has been a slight increase this year in those who are behind schedule on their payments. We are not unduly concerned about that; we believe that situation will continue to improve, much as has been the case in the improvement of those numbers who are leaving farming.

During the last fiscal year, just completed, there was a downturn in the number of producers who left farming, who were borrowers of the Farmers Home Administration. There has been much publicity about the activity of the Farmers Home Administration in many media reports, which would seem to indicate that the Farmers Home Administration is engaged in substantial foreclosure action. That simply is not true.

In 1983, during the fiscal year, Farmers Home Administration completed foreclosure actions on only 615 out of the 271,000 borrowers which we have. Of all types of people leaving farming, who had loans with the Farmers Home Administration, there were 7,500 cases, approximately, during 1983, as compared to 8,200 a year ago. That downward trend, we believe, continues to improve.

More importantly, and I think more indicative of the real concern and commitment of the Farmers Home Administration, this administration, Secretary Block and this President, is to provide constructive assistance, and do everything in our power to keep producers in operation, is the use of the various servicing actions which are available to us to assist farmers, and keep them in operation.

We have used all forms of special consideration and assistance that are available to us in 65,000 cases this year. This compares to 46,000 a year ago. You have heard us, I know, take exception a number of times to the question of whether or not some sort of deferral, or required deferral action should be written into law.

Frankly, we continue to feel very strongly that that should not be the case. We believe that we have properly and effectively used the variety of servicing actions available to us; but of these, the deferral action was only necessary in 2,900 cases of the 65,000.

The situation of each farmer in America is different. An increasing number of producers have both commercial farm credit system loans and Farmers Home Administration loans. There is no single course of action which can be dictated through legislation, which will adequately or sufficiently service the need, and respond for a variety of the needs of an individual producer.

We would hope, and strongly encourage the Congress to join with us in understanding and evaluating what our performances have actually been, with regard to the many servicing actions that are available to us, and give us the continued discretion to be able to wisely and prudently make them available, not to cause further

difficulty for our producers, but to provide constructive credit to them, in a way that will allow them to continue to have a reasonable expectation of success.

I would like, Mr. Chairman, if I might at this time, to take a moment to discuss crop insurance with you, briefly. This will be a year in which I think crop insurance truly has been tested. But I think there also needs to be some background added to that record.

It is currently our expectation that within the drought-stricken States, that the crop insurance program this year will pay out about \$450 million in loss indemnities, that will be an alltime record on the part of the crop insurance program. The participation rate in much of the drought area was not as high as we would like to have seen it this year.

Frankly, there are several good reasons for that, that we are well aware of, and I think have taken major steps to correct.

But suffice it to say that those producers who took advantage of the PIK program and crop insurance, find themselves in reasonably sound condition, as we conclude what would otherwise have been an absolutely disastrous year. I think it demonstrated, once and for all, that a crop insurance program, with a good product, can and will meet the needs of producers.

I know Senator Jepsen earlier raised the question as to why we have not had historically greater participation in the crop insurance program than is evidenced by our current level of the number of participants.

I think, fundamentally, there are three reasons which have caused this to happen historically.

During the pilot, or development stage of crop insurance, 1948 to 1980, the type of product which we offered did not recognize the differences between individual farmers and, in fact, offered the opportunity to a poorer producer to actually benefit from a program at the expense of a better producer.

As a result of that particular product offer, which was a county average offer, many producers felt that for those of average and above average, the program in effect was almost a ripoff. It was not fairly and equitably offered to producers around the country; and they, therefore, elected not to participate. In fact, much of the financial community regularly recommended against participation.

In that same vein, most of our producers around the country, in looking at the product available to them, and particularly those of average and above average managerial ability, looked at the amount of coverage available to them under this county average system that the Corporation had used for over 30 years, and concluded it simply was not adequate for their needs, and was priced far too high for the benefit which they might potentially receive. A conclusion which many in the banking community shared, and as a result they too decided not to participate.

There was a third reason, which was particularly prevalent, I think, in the drought region this year, and that was a feeling that in some parts of the country they were essentially disaster proof; that while they might have a reduction in production, they would never have a sufficiently bad crop to take advantage of crop insurance—a factor which, unfortunately, the drought this year proved

all too substantially not to be the case. There is no place in this country that is disaster proof as far as agriculture is concerned.

We think we have taken some fundamental actions to correct those deficiencies within the crop insurance program. The most significant of these is the implementation on a broad scale, an aggressive scale, of the individual yield program. This program for the first time, on a wide scale, makes available to all producers a program in which their coverage is based on their ability and their performance as individual producers.

It also reflects, from a premium perspective, their ability as producers. These improvements, I feel, were fundamental, and absolutely necessary, if the crop insurance program was ever to have a realistic chance of success. Those changes are in place. They were partially in place for this year, and they will be fully in place by the 1984 crop year, and we do expect a substantial improvement in the participation levels.

One significant change which is clearly evident is the action of the financial community in responding to these changes, as they have examined them, and are beginning to recommend very strongly to their producers and borrowers that they should take out crop insurance, and participate in the program, much as we will be doing in the same vein with the Farmers Home Administration activity this year.

The programs under my general jurisdiction, I think, are prepared and we have done everything reasonably possible to provide sound and constructive assistance to our producers who are affected by the drought. We do not feel, frankly, that we need additional legislation at this time; we have a broad range of authorities available to us so that we can more than meet the needs, and supply and support the producers, in helping them to stay in business, and continue to operate in the coming years.

We intend to make full use of those authorities. We have done so. We plan to continue to do so; and we plan to continue to improve upon the crop insurance product, which in our view is the only realistic long-term solution to the agricultural disaster question.

Mr. Chairman, I probably rambled a little bit too long, and I will be pleased to answer any questions the committee has; and I should defer now to Mr. Goldberg for the area which he has responsibility.

Senator COCHRAN. I think before we get into questions of Mr. Naylor, it would be good to hear from Mr. Goldberg. You probably have some statistics and facts that would be helpful for us to more fully understand the impact of the drought that we have sustained this year.

We appreciate your being here, and we will ask you to proceed.

Mr. GOLDBERG. Thank you, Mr. Chairman.

Specifically, I will be responding to the section of the bill that has to do with the emergency feed areas alluded to by Senators Huddleston, Jepsen, and others.

Mr. Chairman and subcommittee members, I am happy to be here this morning. I apologize as my statement, I understand, is on its way up with a minor alteration, but hopefully it will be before you soon.

Senator COCHRAN. Will it be here in time to include in the transcript of the hearing?

Mr. GOLDBERG. Yes, sir.

Senator COCHRAN. Thank you.

STATEMENT OF HON. RICHARD GOLDBERG, DEPUTY UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE

Mr. GOLDBERG. This year's drought has been one of the worst in 50 years. In addition, livestock producers have seen the costs of their feed for their livestock increase dramatically in combination with a number of factors.

Proposals have been made which would require the Secretary of Agriculture through the Commodity Credit Corporation [CCC], to provide corn classified as U.S. Nos. 4, 5 or U.S. sample grade at a price equal to 75 percent of the basic county loan rate for that particular grade. This corn would be made available to farmers and ranchers declared eligible for emergency loans as authorized by the Consolidated Farm and Rural Development Act for the maintenance of foundation and secondary herds of livestock and poultry.

Mr. Chairman, members of the committee, if I may at this time, I would like to address the questions regarding that grade of corn since the bill specifically requires us to deliver that kind of grain and focus my attention, if I may, on the largest amount of that type corn we have which is located in one grain elevator facility in Plainview, Tex. We have approximately 21 million bushels of grades 4, 5, and sample grade in the State of Texas. I would like to tell the committee what has happened to that corn in the Plainview elevator so you will know where we are as far as the condition and location of that particular lot of corn. That corn was shipped from Iowa and Minnesota as a result of the previous administration's embargo of 1980, because they did not have storage, as I understand it, in those areas. The corn, when it was shipped from Minnesota and Iowa, was No. 3 grade Yellow or better. At the destination when it was unloaded in Texas, because it was very dry corn, we experienced a lot of breakage in kernels so a lot of it did grade on the inbound at lower levels.

I think that rather than waste a lot of time on numbers for you, Mr. Chairman, and others, I would like to tell you what has happened in the sample grade category, which is the worst grade of the corn that went into that elevator. In 1981, we had 732,000 bushels of sample grade corn in that elevator. As of today, Mr. Chairman, the obligation of that warehouseman is to deliver 356,000 bushels of sample grade corn from that elevator, and we would have reduced all of that had we not stopped selling corn in the High Plains area.

I might mention the reason we stopped selling corn in the High Plains area was in deference to the sorghum producers who threatened a lawsuit if we put sample grade or off grade corn on the open market in competition with sorghum. That is the reason we still have some off grade corn still there.

I might also add, Mr. Chairman, that the amount of No. 1 and No. 2 Yellow has increased since we put the corn in 1981 through

commingling and adding in of other corn which warehousemen routinely do in order to upgrade their inventories according to our back records.

I might say that the inspection carried out by the State department of agriculture in Texas indicated that a high percentage of the corn was out of condition, where it was of sample grade character. The owners of the elevator sampled the same amount of corn following the inspectors of the Department of Agriculture of the State of Texas, and where the State got about 46 samples of sample grade corn, the owners of the elevator, using similar probes right after the Texas people had been there, got only 10. I guess the point of all this, Senator, is that the corn is livestock feed, it is highly suitable for livestock and we do not agree with the Commissioner's report from the State of Texas.

The reason I mentioned that is although we have 80 million bushels of corn scattered around the Nation, it is in very small lots in a number of other elevators and it is unlikely that very many of those elevators would comply with this law if it were passed to furnish only grades 4, 5, and sample grade. And if they do furnish a higher grade than that, the farmer will pay slightly more money. He will pay the 75 percent of the loan of the higher grade corn and the warehouseman will receive a premium for delivering something more than 4 or 5 grade corn.

The Department of Agriculture has already taken several steps in providing assistance to farmers and ranchers adversely affected by the drought and hot weather. The steps taken by one of our agencies, ASCS, are as follows:

One, special provisions have been announced which allow producers in identified drought-stricken counties to graze their livestock on their own conservation use acreage [CUA].

Two, special provisions have been announced which allow producers in identified drought-stricken counties to harvest hay and other forage for their own livestock from their own conservation use acres. We have approved approximately 1,280 counties for harvesting and grazing CUA.

Three, all State and county ASCS offices have been instructed to assist livestock producers in need of hay and other roughage in locating producers with excess hay or other roughage available for sale.

Four, State and county ACSC offices have been instructed to post in the office the names, telephone numbers, and services which are available for the harvest and transport of forage crops including forage cutters, trucks, and balers.

Currently, CCC has in inventory in 27 States a little over 80 million bushels of corn that is U.S. No. 4 grade or lower. The majority of this corn, Mr. Chairman, is located in three States, Texas, Iowa, and Minnesota. I alluded to Texas because the corn that we have of that grade, that is in Iowa and Minnesota, is scattered among many elevators.

This corn is stored in approved warehouses under the uniform grain storage agreement [UGSA] and is permitted to be commingled with different grades of corn. This is due to the impracticality and costs associated with requiring storage to be segregated by grade. Warehousemen attempt to upgrade the grain whenever it is

received and commingled. Therefore, under the UGSA, CCC would be required to pay premiums to warehousemen for any corn loaded out if it were higher than No. 4, 5, or sample grade.

Because there is very little, if any, CCC-owned corn in many States affected by the drought, CCC would become involved in a complicated transportation plan in order to furnish CCC low-grade corn to eligible areas. I might add, Senator, that the bill does call for transportation costs. CCC would not be able to use the lower rates associated with unit train shipment due to the expected small lots that would be needed and the necessary widespread distribution. CCC therefore would incur high transportation costs.

In addition, we believe that the 80 million bushels of corn, U.S. No. 4 grade or below, would not be sufficient to meet the demand of all the farmers and ranchers who would be eligible to receive emergency animal and poultry feed. I might mention here, Senator, that the bill does include both primary and secondary livestock which virtually would include all livestock in the Nation located in disaster areas. Therefore, some farmers would not receive any of the corn, and the administration and the Congress would be the target of heavy criticism for implementing an inequitable program. Historically, these programs have been inequitable and subject to some abuse.

In the face of criticism that the administration and the Congress have already received over the amount of money now being spent on farm programs, it is imperative that the problems associated with such a program be brought to your attention.

Mr. Chairman, if you have any questions, I would be happy to respond at this time.

Senator COCHRAN. Thank you very much, Mr. Goldberg. We appreciate your statement and in particular your detailed discussion of the suggestions about the use of corn that is in storage being made available for farmers and ranchers for feed, for cattle and other livestock. This has been a subject that has received a good deal of attention in recent days, particularly from the State of Texas where there have been some suggestions that the Government could quite easily just make available that grain and solve a lot of problems that the livestock industry has out there. But, according to your testimony, it is not quite that simple. It would not be very easy to do and you would have to transport grain from other parts of the country.

Is that what you are telling the committee?

Mr. GOLDBERG. Not for—specifically not for the State of Texas, no. We would for other areas, yes.

Senator COCHRAN. Well, what is your reaction to the Bentsen amendment, for instance, that was adopted by the Senate the other day as part of the dairy program?

Mr. GOLDBERG. Senator, our feeling is that it is inequitable, as we pointed out in our testimony. The transportation situation would be a severe problem. We are prepared to administer it if the U.S. Congress, in its wisdom, wants to pass this kind of legislation.

Senator COCHRAN. I have heard from several farmers in my State who are somewhat concerned about the impact of counting payment-in-kind acreage as normal production might have on deter-

mining whether or not a sufficient loss has been sustained to qualify for an EM loan.

As I understand the law now, a farmer has to sustain a 30-percent loss in production in order to qualify for an emergency loan under the disaster assistance program administered by the Farmers Home Administration. I further understand that in determining qualification for that kind of loss this year PIK acreage will be counted as acreage that has been planted, even though it has not been. Thus, if a farmer has half of his farm in the PIK program he would have to sustain what amounts to a 60-percent loss on the half of the farm that he actually planted because the Government is going to consider the other half has not sustained any loss.

Is this true, or what is the attitude of the Government about that?

Mr. Naylor, do you have a policy that has been implemented or has a decision been made with respect to that issue?

Mr. NAYLOR. Yes, Mr. Chairman, we have. There has been a long history in the legislation, particularly that legislation dealing with disaster situations. When we look at the assistance provided by the Federal Government, we take into consideration all assistance that has been provided. For example, Federal crop insurance indemnity payment would be deducted from the amount of loss loan that an individual would be eligible for, if he were applying for an emergency loan. The same principle, in our view, applies to the case of the PIK payment. The unplanted PIK acreage is counted as planted acreage; it is in effect, in our view, perhaps the best drought insurance that was offered this year. It did a very effective job. We do, for the purposes of the calculation of the loss, consider that, because the law calls for consideration of the total production and total acreage planted and payments received by a producer in determining the amount of the loan for which he would be eligible. Therefore, we count the unplanted PIK acres as having produced a normal crop.

We consider, for those who have participated in PIK, their PIK eligibility, and what they have received from PIK in determining the total assistance which they have received. Therefore, that would tend to reduce the amount of loan for which they would be eligible, if they had a qualifying loss on that acreage which was actually planted.

Senator COCHRAN. Well, I do not know about the other members of the committee, but I frankly find that decision obnoxious. I do not really think that is a fair decision our Department has made. I do not think, if you go back in history, you will find that the Department has calculated acreage reduction program payments as a disaster assistance payment in the determination of percentage of loss of production as occasioned by a natural disaster. I think there is a distinction between a Government assistance program that was designed to compensate a farmer for losses due to weather conditions and a program that the Government has instituted to cut back production. These are two different things. In the past, no acreage reduction program payment has been used to calculate Government assistance in terms of actual loss by the farmer as a result of natural disaster. So why this year change and say that the PIK program is an assistance program for farmers or a crop

insurance program for farmers when that is not why it was implemented. It was implemented to take acreage out of production, to try to help the Government cut down on its expense in administering its farm programs, because we had accumulated these large surpluses and they were hanging over the market and depressing prices. That is why the Government decided to implement the PIK program. We would create incentives for farmers to take acreage out of production. Now to consider those payments in kind as disaster assistance or crop insurance payments, is really stretching a point. It is going to end up harming a lot of farmers. They are going to have to sustain the damages as a result of this drought without any Government assistance, unless they sustain very large losses, much larger than 30 percent in many cases, if they participated in the PIK program.

On the one hand, while the Government enticed farmers to go into the payment-in-kind program to cooperate in lowering the cost of farm programs, now they are being punished for doing that if they sustained any drought damage. That bothers me. I do not see the logic in that.

Mr. NAYLOR. Mr. Chairman, I think there is an important distinction in that we did have a program, a commodity which would have otherwise been grown. The producer has a right to sell it; and do with it what he sees fit; and to take advantage of having that crop available to him, which he otherwise could very well have sustained a loss on; and for the producer who did not participate in the program, of course, he did sustain a loss on. It was being treated in the same way that we would treat any other growing crop. He did receive and he did have production, albeit he did not plant it, he nevertheless received it as payment in kind and naturally received the commodity as though he had grown it. And therefore, as we calculate the total production on that operation, we treat it as though he had grown it; because, in fact, that is the concept that we are applying to this particular situation. There are no payment limitations in effect, and to do otherwise would create a situation where a producer could conceivably receive very substantial value out of the PIK program and yet still be eligible for deeply subsidized loans on a relatively small acreage that might be planted.

It is important to remember that the producers who has had a substantial loss in that remaining planted acreage could still, of course, be eligible for that additional assistance. But they have already received very substantial assistance in the form of having essentially a disaster-proof commodity, a quality commodity which they have received, and which they can sell as though they had grown it, and was not subject to any of the conditions that occurred under this particular year of adverse weather.

We think it is a very equitable treatment. To do otherwise would also substantially punish the producer who was not in PIK, and who had sustained a loss on his crop, because he is being faced with having to borrow on the total cropping situation which he faces, as opposed to a lesser amount on those that were in PIK or also participated in crop insurance, which is also taken into consideration in making a determination on the amount of loan that would be available.

Senator COCHRAN. Well, having said that, I disagree very strongly with the policy that is being implemented in the Farmers Home Administration with respect to calculating the amount of loss that has to be sustained. I do want to commend you for reducing the interest on emergency loans that are being made available from a high rate of 8 percent to 5 percent. That is what the interest rate is being reduced to; is it not?

Mr. NAYLOR. Yes, to 5 percent, Mr. Chairman.

Senator COCHRAN. That is a substantial improvement for the farmers, and I think that is really a very important change that has been implemented. I compliment you for that.

Senator HUDDLESTON.

Senator HUDDLESTON. Thank you very much, Mr. Chairman.

First, let me say that I too recognize some efforts have been made by the Department to help alleviate impacts of the drought. The Department has acted in reducing some interest rates in the manner of handling loans, in approving grazing rights, and in several other areas. I think these steps have been very positive, yet my concern is whether or not they are commensurate with the magnitude of the problem that exists out there and with the difficult task of overcoming the circumstances that many of our agricultural producers are in.

We have got, it seems to me, a very serious situation when we add to the 3 years of declining income, the declining exports that we are experiencing and low market prices—which are going back up now that the farmer does not have anything to sell. This dilemma has been the history and the story of farm marketing problems, and consequently has given rise to the legislation that I have introduced.

Now, regarding the question of the economic emergency loan, did I understand you to say that the intentions of the Department are to reinstitute that program?

Mr. NAYLOR. Yes, Senator, that is correct. Pursuant to court order and our working with the court, we anticipate reimplementation of the level authorized by Congress at \$600 million 2 years ago, while the program was still in effect, to be reinstituted about the middle of December, on the basis of the order, and the program will continue in operation through September 30, 1984, at a prescribed level of \$600 million, which is the same level authorized, and it has been discussed at some length within the Congress.

Senator COCHRAN. Would you yield on that point?

Senator HUDDLESTON. Yes.

Senator COCHRAN. Will there be a supplemental budget request submitted for funding of the program?

Mr. NAYLOR. No. Under the court decision, what we will actually be doing is reaching back 2 years and taking up authorization so it will not require additional action on the part of the Congress for us to be able to proceed.

Senator COCHRAN. Thank you.

Senator HUDDLESTON. Now, regarding the difference the bills S. 24 or S. 1949 would provide in the deferral area of Farmers Home loans, you indicate very strongly that you are doing just about what they would require. The only difference would be that there would be a requirement. There would be a mandatory requirement.

Where certain showings could be made. Farmers Home would have to give a deferral.

Is that the major problem you have with that particular provision?

Mr. NAYLOR. Senator, we continue to feel that it is vitally important that we have the discretion, and my financial background, I suspect, leads me to feel more strongly than most, to use the proper tools for the individual producer. While we have taken some 65,000 actions this last year to help individual producers within our discretionary authorities, only 2,900 of those needed to be deferrals. The balance involved rescheduling, reamortizations, subordinations to commercial lenders, steps that are within our discretion which we have effectively used.

Senator HUDDLESTON. The legislation would not interfere with that authority, I mean you would still have all those options, would you not?

Mr. NAYLOR. We continue to be concerned, Senator, and I know how much thought, and I know how concerned you have been with this entire area, and I know that it has been looked at very carefully by you and your staff and others; but we continue to believe that the legislation as proposed, administratively, practically and legally, in a court situation, perhaps would require us to go much beyond and not use the deferrals as the most effective means; and in many cases it would be counterproductive under the best interests of producers, on a case-by-case basis.

We believe that we have made good use of the authorities available to us. To require us to take a particular course of action and the follow-on action that is prescribed, not only may be counterproductive and administratively very difficult to handle, but represents a substantial additional potential cost to the Government that, in our judgment, is not warranted by the ability we have to take other actions.

Senator HUDDLESTON. But, would it not give some standardization throughout the country? You have, I suppose, a good many decisions or judgments being made at local offices. Do you not have a situation now where it is possible that farmers in different sections of the country could be treated substantially different as far as their credit is concerned?

Mr. NAYLOR. Senator, I would have to answer you with all candor that I suspect that none of us could write a law that would not be subject to that problem when you have 2,300 offices and 7,500 employees interpreting it. We do have very precise instructions; and we are expanding on those instructions in the sense that we are limiting conditions or the degree of discretion, when certain conditions exist, that a servicing action is to be followed.

We have been working closely with some court cases in this; and we expect to improve upon our regulations from the perspective not only of having better trained personnel, but clearer instructions, on what is to be done so that every producer is treated equitably.

We also have, I think, a very good system; and if it breaks down, you do not fail to remind us and your fellow Members of Congress that mistakes will occur and there is an appeal process; and we also have a very effective way of hearing when those cases occur,

and we take prompt action to correct an inequity when it has happened.

Senator HUDDLESTON. Well, just let me say that I recognize that credit cannot be the total answer to the problems. In fact, to some degree, it is part of the problem. We do have to exercise, I think, some pretty good judgment. The individual farmer has to exercise some pretty good judgment about his credit potential. I guess one of the problems that all of us have had for too many years is that we have too much credit available to us. It can be a two-edged sword, I know.

But, on the other hand, the farmer who has to depend on credit for his production costs year after year and finds himself in extreme difficulty in servicing what is already there, and I think is deserving of some consideration.

You mentioned the timing situation, and I find that some of our farmers are reluctant to go ahead and start making arrangements because they are not sure what the rules of the game are going to be. Maybe we are partly responsible for that for suggesting that there may be legislation that would change the rules some. On the other hand, it may be that if the administration is adamant in that situation, maybe we ought to announce to them that there is not going to be any changes; that if Congress should act, that there would be a veto, or whatever, so that they can begin to make their plans. I think January 1, or shortly after the first of the year is a crucial period because they are beginning then to think about what their production needs are going to be for the new season.

Do you see any way to help facilitate that situation?

Mr. NAYLOR. Senator, I would candidly say to you, as we have discussed before, that we feel that Congress very wisely has given us some very fine programs with a great deal of discretion to manage credit and manage it effectively. We are, as I indicated earlier, starting a campaign to try and persuade producers to come in early this year and not get us loaded up as badly as we normally are, as they normally come in toward the end of January.

I would have to honestly say that from a credit perspective, I am gravely concerned that we not complicate nor worsen a producer's position by imprudent use of credit or imposing conditions which will only, in the end, make his condition worse and not better, because I know we have a common concern and a common dedication to helping these producers survive and be successful and come back as strong vibrant members of the agricultural community. And we strongly believe and continue to believe as we have for sometime, that additional legislation in this area is not needed at this time and, in many respects, as you have indicated, leaves a cloud in many potential borrowers' minds as to where we are headed. It continues to be the position of the administration that we would strongly oppose and recommend against any significant changes, perhaps any changes, in our operations; and that we need to get on with our business and do everything in our power to help these producers stay in operation and do so with the hope of ultimate success.

Senator HUDDLESTON. Does that mean that you would recommend vetoing S. 1949 if it should pass, or something similar to that?

Mr. NAYLOR. Senator, you know I cannot second-guess the President, but we would have to view very carefully what was proposed and make recommendations based on what ultimately was passed by Congress.

Senator HUDDLESTON. Just one more area then, quickly.

What is your opposition to advance deficiency payments?

Mr. NAYLOR. I would defer to Mr. Goldberg for that area because that deals with his agency area, if I may, sir.

Senator HUDDLESTON. Fine.

Mr. GOLDBERG. I guess, Senator, we have some problems with advance deficiency payments, both in terms of costs and what happens to us when the price of grain moves to the point where we no longer are required under law to give deficiency payments which is the present situation with corn today.

Senator HUDDLESTON. The question of being able to predict is going to be a deficiency.

Mr. GOLDBERG. Well, unhappily, we really do not like the idea of going back to a farmer after we have given him an advance on a deficiency payment and now tell him that he is no longer eligible and we want the money back. But that is the law, Senator.

Senator HUDDLESTON. I yield to our colleague who has been patient.

Senator COCHRAN. Senator Zorinsky.

Senator ZORINSKY. I would like to briefly ask the question concerning the historical rulings that 30 percent of the county must be affected by a disaster. When an individual secures any type of disaster, or catastrophic insurance, it is not based upon his neighbor's losses, but rather his own, in an actuarial sense. I am sure this is not the first time you have heard this concern, but it is pretty difficult, in my estimation, to explain a stupid ruling to farmers, why when their farm is heavily affected they had to wait until all—not all the farms, but 30 percent of the farms in the county experience a disaster. I am not aware of any farmer that owns a county, and therefore I do not see the correlation between the two, and was wondering if there is any possibility for you to explain that in a logical way, your views on changing that ruling.

Mr. NAYLOR. Senator, I appreciate the question; and yes, I would like to try and put that into perspective, because I think this has led to some proposals in the Congress. There has been a considerable breakdown of communication and understanding of what it is we are about—the process of designation in making emergency lending available.

Let me step through it, if I may, Senator, in what is really involved here. The matter has been of significant concern regarding the current process used to make our designation, and has led to the misconception that it is possible only when certain production losses have occurred on a countywide basis. That is absolutely not the case.

The language of section 321 of the Consolidated Farm and Rural Development Act of 1961 requires the Secretary, and places upon him the responsibility to make emergency loans, based on his finding that there has been a natural disaster. And some method of making that finding is necessary in order to qualify and make that particular program, under law, available.

Our existing regulations provide three distinct methods. Two of these use countywide production loss guidelines. The Secretary considers losses of this extent sufficient, on the face of it, to establish that an adverse weather event has clearly been of such a magnitude that it warrants a natural disaster conclusion.

And, if you will, in lawyer terms, I suppose it is *prima facie* evidence, that when you have had a 30-percent loss on a countywide basis of basic production, clearly there has been a major natural disaster, and a prompt designation is appropriate.

The third method, however, is independent of countywide effects, and has been in use for a couple of years now; and we have used it extensively this year. Under it, any area, even including a single farm, can be found to have been affected by adverse weather conditions to the extent that a natural disaster conclusion is justified. But since the consequences of adverse weather are less extensive, and on a more limited basis, the Secretary has, and does look at other criteria, with regard to the extent of production losses, and other factors that have impacted upon one or small groups of farmers.

We have used this type of designation on particular crops, for example, a tree crop, that had early frost, where the rest of the area was not affected as far as row crops were concerned, and to make emergency loans available to small numbers of producers within a county area.

I think it is important to keep in mind that we have not rejected a single request this year for a disaster declaration in a drought area. We are, in some areas, where the area affected is less than a county, looking at and reviewing additional information; but I would suspect that any producer who has been significantly affected by a drought will ultimately be eligible for emergency lending.

It is important, though, that we make this distinction. It is our view that without such methods to determine that, in fact, a natural disaster has occurred, in an equitable fashion, that the standard in the law, and in the concept of disaster assistance, becomes meaningless. That it leads potentially to abuse and problems that led to programs like the "60 Minutes" program of a couple of years ago, unless there is some rational basis of determining that, in fact, a natural disaster has occurred.

A matter which appears to be misunderstood is that independent of these two countywide guidelines, the first two steps, which in effect are *prima facie* evidence, before we go to the third guideline, which deals with smaller groups of producers, that the Farmers Home Administration, itself, as an administrative matter, uses the term designated county. This simply tells our finance office in St. Louis, and tells our officials at the State and county levels, that in a designated county they can accept, and should be accepting emergency loan applications; and it is strictly an administrative connotation to indicate that a county has somewhere in it a disaster situation, for which emergency loan applications should be accepted.

So very simply put, the truth of the matter is that we have the capacity, and are using that capacity, to provide emergency loans where even small groups of producers have been affected by a natural disaster.

Senator ZORINSKY. How would this qualify, or equate, to say hail damage?

Mr. NAYLOR. It is quite commonly used for that, or even a strip area for floods, for example, Senator, where you have a small area that has been adversely affected by flood damage, as we have had in a number of counties this last year, or a strip hailstorm that goes through, that might have affected 15 or 20 or 30 farms. We can, and have, and do designate, and make emergency loans available.

But what we are concerned about, though, is the legislation that we have seen in a couple of proposals, provides that the producer decides whether or not he has had a natural disaster, and any producer in any county in the country can come in and file for a low-interest loan, basing it on his/her own assessment that he/she has somehow been affected during the growing season by a natural disaster.

Senator ZORINSKY. You do not think the mechanism of bureaucracy is such that nothing happens until the designation is made, that now 30 percent of the town—and I am talking about reality, I know you are reading from the rules and regulations, and unfortunately those of us here, who make these laws, think that they are ideally suited, at this table. When you get out there where God plays the game in reality, it is a lot different; and your people, our people, are sitting waiting for help and then somebody in the bureaucracy says it is not big enough magnitude to have created a 30-percent loss in a county area. Maybe it is time we do something about it.

And, you know, the Federal Emergency Management Agency, when they come in on a tornado, maybe one-tenth of 1 percent of a city is destroyed, it is cut down, but they can go out and see if a house is gone, and the foundation is all that is left, that house qualifies for some humane treatment from the Federal Government. It does not require waiting to see if 30 percent of the county was destroyed by that tornado. It triggers action immediately.

Mr. NAYLOR. Senator, let me put it in a flip side, if I may.

What the 30 percent does is establishes from a growing crop basis that the damage was so extensive that we do not need to go in and look for that kind of detail, and that kind of localized problem, that the entire county deserves immediate designation, and that is the basis upon which we have processed so rapidly so many requests this year, on that 30-percent basis.

We simply said, look, there is clearly that degree of damage, we do not need to do any more, we do not need to go in and look, it is clearly a major disaster, natural disaster, designate now.

Senator ZORINSKY. OK. We are causing our problem then by putting the 30-percent requirement number in there, because everybody is assuming that 30 percent has to be destroyed before anything can happen.

So, as you say, if it is wide enough spread, cannot the loss be recognized, without putting a number 30 in there?

Mr. NAYLOR. The number 30 is not necessary, Senator, when looking at less than a county situation. The law requires the individual producer to have that amount of loss, but we can go in and designate for fewer producers than that, who have had significant

natural disasters; and I would be happy to provide for the record the number of instances where we have gone in on a very limited number of producers and declared them eligible for emergency assistance, because of either strip hail, or local flood, or frost damage on a growing tree crop, for example, as one of a variety of reasons why a more limited area than a county, or a more limited number of producers than those represented in a countywide situation, would be eligible for emergency assistance.

Senator ZORINSKY. Do you have any numbers on how many individual farms were identified outside of the 30-percent requirement for a county? The No. 3 alternative that you pointed out as an estimate.

Mr. NAYLOR. I do not have those figures with me, but I would be happy to provide you the counties which were declared eligible for specific crops, or trade loss, more limited than 5, 10, 15, or 20 farms that were damaged, whatever that case might have been.

[The following information was received by the committee:]

COUNTIES NAMED BY THE SECRETARY UNDER HIS DISCRETIONARY AUTHORITY—LOSSES
LESS THAN 30 PERCENT COUNTYWIDE

(States and counties—estimated number of farms that will qualify for EM loan assistance)

Arkansas: Clark 45, Drew 42, Franklin 138, Hempstead 180, Hot Spring 33, Howard 40, Independence 20, Lafayette 18, Lawrence 513, Madison 50, Marion 60, Miller 12, Perry 49, Poinsett 130, Prairie 212, Pulaski 302, Searcy 50, Union 120.
Illinois: Boone 10, Carroll 6, De Kalb 25, Jo Daviess 216, Kane 5, Kendall 30, Lake 10, McHenry 20, Ogle 100, Whiteside 5, Will 25.

Indiana: Adams 75, Allen 120, Boone 225, Cass 50, De Kalb 145, Elkhart 100, Franklin 200, Fulton 100, Hamilton 150, Hancock 50, Howard 80, Huntington 95, Jay 150, Knox 125, Kosciusko 150, Lake 85, La Porte 80, Madison 150, Marion 50, Marshall 175, Miami 150, Montgomery 100, Noble 90, Porter 65, Pulaski 285, Putnam 50, Randolph 180, Starke 80, Steuben 65, Tipton 50, Union 50, Vermillion 100, Wabash 250, Warrick 250, Wells 250.

Kentucky: Bell 2, Breathitt 4, Carter 5, Greenup 10, Knox 5, Magoffin 10, Owsley 4, Webster 100.

Maryland: Anne Arundel 10, Baltimore 15, Caroline 25, Cecil 20, Garrett 15, Howard 30, Prince Georges 25, Somerset 13, Wicomico 20, Worcester 7.

Missouri: Barry 20, Butler 100, Callaway 30, Cedar 50, Cooper 30, Crawford 20, Dent 20, Douglas 50, Hickory 40, Howard 20, Jasper 30, Maries 10, Osage 25.

North Carolina: Alexander 20, Avery 50, Brunswick 60, Camden 55, Carteret 1, Cherokee 45, Cumberland 170, Dare 4, Nash 200, Pitt 120, Robeson 200, Sampson 600, Stokes 200, Tyrrell 40, Wake 120, Watauga 100.

Ohio: Columbiana 4, Geauga 10.

Pennsylvania: Perry 100.

South Carolina: Aiken 3, Cherokee 5, Colleton 700, Darlington 50, Dillon 75, Charleston 14, Florence 50, Georgetown 20, Horry 20, Marion 25, Williamsburg 70.

Tennessee: Campbell 200, Cocke 40, Coffee 20, Cumberland 100, Franklin 200, Greene 1,000, Hamblen 20, Polk 75, Washington 720.

Virginia: Brunswick 200, Northampton 50, Charles City 20, Pittsylvania 200, Isle of Wight 60.

COUNTIES DESIGNATED FOR A SINGLE ENTERPRISE

(Total number of farmers suffering at least a 30-percent loss)

Crops damaged:

Alabama:

Fruit and tomato—Blount 34.

Tomato—St. Clair 28.

Fruit—Blount 34, Cherokee 2, Cullman 25, De Kalb 10, Jackson 4, Lauderdale 1, Lawrence 2, Limestone 11, Madison 8, Marshall 3, Morgan 25.

Georgia:

Onion (Administrator notification)—Evans 23,¹ Jenkins 29,¹ Screven 47,¹ Tattnall 70,¹ Wheller 28.¹

Onion (Secretarial determination)—Bulloch 41, Candler 10, Emanuel 451, Long 7, Montgomery 100, Telfair 2, Toombs 268.

North Carolina:

Fruit and berry products—Bladen 36, Johnston 25, Lincoln 60, McDowell 20, Montgomery 6, Polk 16, Richmond 5, Rutherford 65, Anson 3, Cleveland 82, Cumberland 16, Yadkin 9.

Florida:

Vegetables—Broward 11, Palm Beach 45.

South Carolina:

Vegetable—Charleston 14.

Fruit and berry—Allendale 275, Anderson 10, Barnwell 113, Calhoun 2, Chesterfield 12, Edgefield 46, Greenville 105, Lancaster 4, Laurens 131, Aiken 7, Lexington 222, Marlboro 2, Oconee 168, Orangeburg 2,020, Pickens 18, Saluda 17, Spartanburg 219, Sumter 1, York 28, Cherokee 9.

Texas:

Rangeland, pasture and feed crops—Andrews N/A, Brewster 147, Coke 450, Crane 57, Culberson 122, Ector 341, Howard 460, Jeff Davis 90, Martin 518, Midland 150, Mitchell 0, Nolan 583, Pecos, Presidio 160, Reagan 72, Sutton 191, Terrell 89, Upton 54, Ward 6, Winkler 50, Loving N/A, Reeves N/A, Schliecher N/A.

¹ Farmers with 30 percent or more loss in all enterprises reported to be zero. Exact number of onion farmers not available. Upon reconsideration an Administrator's authorization was approved for the maximum number of farmers shown. No request was received to increase the authorized number.

Senator ZORINSKY. Were any in Nebraska, that you are aware of?

Mr. NAYLOR. Senator, I do not recall. I will check the record, and provide it for you. There were a number of counties that have been designated, both last year, and are in the process of being designated this year, using the third criteria.

[The following information was subsequently received by the committee:]

None in Nebraska—12 counties named by the Secretary, all showed 30 percent or more production loss countywide.

Senator ZORINSKY. Let me ask my final question.

What accounts for the discrepancy between private elevator checks and CCC checks on grain quality, as illustrated by the checks on the PLB elevator in Plainview, Tex.?

Mr. GOLDBERG. Senator, I wonder if I understand your question. By checks, are you talking about the inspection?

Senator ZORINSKY. Yes.

Mr. GOLDBERG. The differential?

Senator ZORINSKY. Yes. And what is the CCC policy when these discrepancies are discovered?

Mr. GOLDBERG. Well, basically, Senator, the discrepancies that I told you that the owner of the elevator—the operators of the elevator, against the Department of Agriculture and the State of Texas, both of those are unofficial inspections. They are not AMS, or USDA official inspections.

We last inspected that particular facility in March 1983. Those final figures I gave in my early testimony, outlining what grades of corn were there in March of 1983, compared to January 1981, when the corn went in there, that is the official, legal obligation of the warehousemen. Those are the amounts of grain in those categories, that he must deliver, if we were to order out the grain itself.

Senator ZORINSKY. What is your policy when discrepancies are found?

Mr. GOLDBERG. You mean unofficial?

Senator ZORINSKY. Yes.

Mr. GOLDBERG. We do not have any policy as far as unofficial inspections are concerned. The only policy that we are concerned with is the legal obligation of the warehousemen.

From a practical standpoint, Senator, I owned and operated a grain elevator for 25 years, myself. Nobody really knows what it is until you load out every single bushel of grain that is in the elevator, and if you go in with a 4-foot probe, in a 90-foot tank, you are not going to find out exactly.

Senator ZORINSKY. You do not get an adequate process?

Mr. GOLDBERG. Well, you do not with that. But the Department has used a very sophisticated 30 foot probe, as long ago as 1982, that is a little over a year ago. And we determined at that time what kind of condition that this grain was in, and it measured up to the standards that we required when the grain went in, against the warehouse receipts.

I do not know if I have answered your question.

Senator ZORINSKY. Thank you.

Senator COCHRAN. Senator Pryor.

Senator PRYOR. Thank you, Mr. Chairman.

I am going to ask a broad question, and either of the two representatives of the USDA are certainly welcome to answer it. Is there anything new, or anything different, that the USDA is proposing for, or as a result of the most severe drought in our history?

Mr. NAYLOR. Senator, over a long period of time the Congress has provided us with a wide range of programs to deal with disaster situations, and I think, historically, they have done a good job. I think the answer to your question is no. I believe the programs are available to us and have been used properly, and can and will meet the problems that we face in the present drought situation.

Senator PRYOR. All right.

Do you see any circumstances whereby the USDA might propose in another 30 days or 60 or 90 days any new programs or new forms of relief or new concepts of dealing with the drought?

Mr. NAYLOR. We do not currently have any plans to do so. We will, of course, continue to evaluate the situation as we go through harvest but there has been nothing to indicate the necessity for that at this time.

Senator PRYOR. How do we answer our farmers when we go back to our States, weekend after weekend, during the recent recess, 10 days, and they come up and they say, can you give us any hope; is there anything that you fellows or you folks are going to do in Washington to help us?

How do we respond to those questions?

Mr. NAYLOR. Senator, I think there is a whole series of things that have already been done, for those who participated in the payment-in-kind program, and crop insurance, they had excellent protections this year. For those who did not, we have the emergency loan program, properly managed and properly used, that can be made available under any reasonable set of circumstances.

We have made and reduced the interest rate for that loan program. We have made it possible to graze and hay, and where that was appropriate in your State, we have, I think, made prudent use of and frankly have provided a record that no previous administra-

tion has ever matched in terms of support for our producers in hard dollars to each and every farmer in this country who has been impacted by the drought, far in excess of anything that has been made available before this year.

It is a good record and the producers who took advantage of the programs available to them are not in great shape, but they certainly have had excellent protection from the drought situation they were faced with.

Senator PRYOR. What do you mean?

Mr. NAYLOR. Those who did not, though, certainly are going to need help and may be under some additional stress; and for them we have loan programs that have worked; and we have made them more attractive and recognized the problem being faced by producers by lowering interest rates.

Senator PRYOR. All right.

Is it the USDA's official position that we are in an emergency situation?

Mr. NAYLOR. We have a significant portion of the country in which a substantial drought condition occurred after the 4th of July of this year.

Senator PRYOR. Are we in an emergency?

Mr. NAYLOR. Not nationally, no.

Senator PRYOR. Do we not have any emergency loan program that a court has now ordered the Secretary of Agriculture to implement?

Is that true or false?

Mr. NAYLOR. Senator, yes, I addressed that earlier.

Senator PRYOR. I'm sorry I missed that.

Mr. NAYLOR. We have and will, and it is our intention to reimplement the economic emergency loan program. It will begin in December, according to the court order, and to through September 30 of next year in the amount of \$600 million, and that program will be made available; and we have made the decision to go ahead and proceed in accordance with the court on that issue.

Senator PRYOR. Will those moneys be disbursed basically to individual farmers or through other mechanisms that are already established?

Mr. NAYLOR. The court order requires us to use essentially the regulations that were in effect in the year that this money came from. Those regulations do make this a national program which is available to any producer who can demonstrate an economic problem.

Senator PRYOR. How would you look at any proposal that might conceptually try to implement the reamortization of existing SBA and Farmers Home Administration loans for certain dire circumstances in our farming areas?

Mr. NAYLOR. Senator, we already have the authority to do that, and have used it extensively on an individual case basis; and I think that is the only sound way to do it, and, in fact, in answer to your question, we have used rescheduling and reamortization on 30,000 cases this last year, to help producers where that appeared to be the most prudent action to allow them to continue in operation.

Senator PRYOR. With the 30-percent rule that Senator Zorinsky has mentioned previously this morning, will that have a bearing on the areas of the country that will be eligible for such a reamortization program?

Mr. NAYLOR. No, it has no effect whatsoever.

That is available to any producer who has a loan with our agency.

Senator PRYOR. Now, in the State of Arkansas, I think my figures are correct, we have 75 counties and 48 have been declared disaster areas.

Mr. NAYLOR. That is correct.

Senator PRYOR. That was done only last week.

Now, what—can you give us—I do not want to go county by county, but when could we expect some information on the other 27 counties?

Some of those 27 other counties, I might add, are in what we call the Delta area, in some of our most highly concentrated agricultural areas. In fact, some of them border Senator Cochran's State.

Mr. NAYLOR. Senator, it is our expectation that we will essentially be complete with the processing of the major drought counties within another week, and I would expect that would be the case on the balance of yours.

We have received the assessment reports, there are 27 counties being wrapped up right now, and all that are left to be handled in your State have been requested. I would expect it to proceed very rapidly.

Senator PRYOR. I want to ask a question, this is probably not fair—and I was not going to get into this—but, was the disaster declaration process done any differently this year than in the past?

You are smiling. I do not know whether that means guilt or whether that means you know what I am referring to.

Mr. NAYLOR. No, Senator, I just knew that you could not resist, that is all.

Senator PRYOR. Well, I did not want to get into it, but I thought this might be the only time.

Mr. NAYLOR. Let us make the record clear.

Yes, there was a change and the change was that we took action and the Secretary took action to see that those designations were made more rapidly, that we got a much faster turnaround this year.

Last year, and prior to that, the historical process has been essentially wait until the harvest is complete and wait to see what the total crop was, and then we went in and made a final determination, whether to make emergency loans available.

The drought was so substantial this year we elected not to wait to do that, and went ahead and as soon as it was clear that an area had had substantial damage, we have been processing them, turning them around in a record time.

The incident I think you are really referring to, Senator, was frankly an administrative snafu, which the Department and our agencies must accept responsibility for, but it does not reflect any—anything other than fair and balanced treatment in processing time for everyone that is, the policy of this Secretary, it is under my direction, and we are doing our best to see that it occurs.

Senator PRYOR. What administrative snafu do you have reference to?

We may be talking about two separate ones.

Which one?

Mr. NAYLOR. I assume, which is a risky business, I assume, Senator, you may be making some reference to the announcement in the timing of the Kentucky announcement which had been completed about the time the President was going to be in the State.

We have a process and it frankly broke down within the Department, that was not typical, it will not occur again, and we have taken every step that we know to see that everyone is treated on a timely basis without regard to their affiliation and to have designations move through very promptly; it has always been our policy, continues to be our policy, and will remain so.

Senator PRYOR. Without regard to party affiliation, is that your commitment?

Mr. NAYLOR. I do not think the drought took that into consideration, Senator.

Senator PRYOR. I hope it did not take that into consideration. That is why I raised the point.

Droughts do not recognize Republicans or Democrats.

I do not think that I have ever seen a time when party officials in a State have been given notification before the Governor or members of the congressional delegation.

That happened this time in Arkansas and it caused a lot of people to be concerned. It happened twice, and I do not care who's the Governor—Republican or Democrat—or who the House or Senate Members are, these things should be handled in a prompt, efficient manner.

I am not blaming you. I understand.

Mr. NAYLOR. Senator, we understand how that can happen, but let us, for the record, be clear on what our policy is and what the direction of the Secretary and my office is.

When the work is completed on the review, it is taken to the Secretary for his signature; and once he has signed designating the counties as eligible, or parts of the counties for individual smaller groups, the first step that is then taken is to call the Governor, who made the request, from this office. At the same time, which has always been our practice, our congressional relations office contacts all the members of the congressional delegation in that State once a Governor's office has been called.

Frankly, with all candor, more often than not, it is how good a press office you have got as to who gets out the door first. But our policy is to see that everyone is notified simultaneously to the best of our ability, and we are not perfect, but I think our record has been good, and we intend to continue that practice.

The Governor is the one who makes the request, the Governor is the one who gets the call.

Senator ZORINSKY. Do you have my telephone number?

Mr. NAYLOR. Yes, sir.

Senator PRYOR. My point is very simple. I just did not want this to be a partisan issue.

One final question to Mr. Goldberg.

Are we going to vote, Mr. Chairman?

Senator COCHRAN. Yes; the second bell just rang for a vote.

Senator PRYOR. What relationship do you have in your job, international affairs with the State Department?

Mr. GOLDBERG. Our office, how close do we work?

Senator PRYOR. That is right.

Mr. GOLDBERG. Quite closely, Senator.

In matters of policy, trade, everything—through our interagency relationship with a number of agencies.

Senator PRYOR. Sometime I would like to have your thoughts on it.

Mr. GOLDBERG. I would be delighted.

Senator ZORINSKY. He just came in the State Department—

Senator PRYOR. An Under Secretary of State for Agricultural Affairs which Senator Cochran and Senator Zorinsky cosponsor.

I would like to visit with you personally about it sometime.

Mr. GOLDBERG. I would be happy to.

Senator COCHRAN. Thank you, Senator.

I have two final questions, and then we will recess while we go vote, and come back and have testimony from the other witnesses on the agenda.

When will individual applications be received from farmers?

You mentioned the quick turnaround and the designation of counties that have been certified as eligible in terms of the offices receiving applications.

When will the applications from individuals be accepted?

Mr. NAYLOR. We will accept applications on the date that the designation is made, from that date forward, for 6 months.

Senator COCHRAN. Let me ask you one final question.

Back to this business of counting PIK acreage.

As I understand it, when you are determining whether or not the entire county should be designated as eligible, the PIK acreage; is not considered?

Mr. NAYLOR. That is correct.

Senator COCHRAN. But when an individual farmer comes in to apply for assistance the amount of damage he sustained will be determined based on all of his acreage including the PIK acreage, is that correct?

Mr. NAYLOR. All the commodity that he has effectively drawn, which will include the receipt of the PIK time permit which represents what he otherwise—

Senator COCHRAN. What are you going to tell a farmer who comes in from an eligible county, where PIK acreage has not been counted in determining the percentage of loss for the county, but has been counted in determining individual application eligibility and no farmer is found to be entitled to disaster loan assistance?

You see where you could have this anomaly?

You could have a county that has sustained over 30 percent damage, not counting PIK acreage, and be certified as eligible, and not have a single farmer, who comes in to apply, get any benefit because you are counting the PIK acreage in that instance.

What are we going to tell this farmer?

Mr. NAYLOR. It may be theoretically possible, Mr. Chairman, but I do not think as a practical matter that it would occur. We rarely had more than 75-80 percent participation in the PIK program.

Twenty percent or so of the producers did not participate, if they sustained losses, they will be eligible.

And, of course, we have our basic loan programs that continue to be available, regardless of whether a designation has occurred or not; and we do make extensive use of those for our existing borrowers to supply them with the necessary credits in the ensuing years.

Senator COCHRAN. Well, I hope the Department will reexamine that decision. I really think it is serious enough to require reexamination of the decision that has been made to restrict eligibility for those who are participating in PIK.

Mr. NAYLOR. Mr. Chairman, I will be pleased to do that, and I will review it with Secretary Block, and will make a point to come back and discuss it with you promptly.

Senator COCHRAN. I would appreciate that.

We will stand in recess for about 10 minutes.

[Recess.]

Senator COCHRAN. The subcommittee will come to order, and we will resume our hearing, if we have witnesses left.

Could you just sit here together?

We would appreciate that. That would be fine.

The subcommittee will come to order.

We are happy to have as our final two witnesses today, the representative of the Farm Credit Administration, Dr. George Irwin, who is the chief economist of the Farm Credit Administration, and Dr. Marvin Duncan, who is vice president and agricultural economist of the Federal Reserve Bank of Kansas City, Mo., to help us understand the economic consequences of the drought that has hit America this year.

We appreciate your being here, and we know that you have prepared statements which we thank you for, and I would ask you to consider those as a part of the record in full at this point, and make such summary comments or other comments that are shorter than your prepared statement, so that we can complete the hearing in a timely fashion.

Thank you very much for your cooperation with the subcommittee.

STATEMENT OF DR. GEORGE IRWIN, CHIEF ECONOMIST, FARM CREDIT ADMINISTRATION

Dr. IRWIN. Thank you, Mr. Chairman.¹

I might remind you, just for the record, that the Farm Credit Administration is the independent Federal agency that regulates the cooperative Farm Credit System.

We appreciate the opportunity to make some general comments on the impact of the drought. I would summarize by reviewing that the months of July, August, and September showed some pretty severe conditions of both heat and drought in many, many parts of the country. Before then and since, the patterns have looked better; yet despite how you look at it, this has been one of the most severe and damaging limitations we have seen on physical production of crops and to a certain extent on livestock.

¹ See p. 88 for the prepared statement of Dr. Irwin.

The whole thing, though, took place in a setting of massive land retirement under the PIK program, and results for most commodities, except for wheat, have been to tighten U.S. supplies and improve the crop prices considerably more than would have been the case without the PIK program.

So we have to be a little careful in trying to determine what the net impact would have been of the drought alone. What really matters is the combined result, now that we are in a considerably closer balance of stocks than we have had for several years. Of course, livestock farmers didn't really have the opportunity to participate in such programs this last year.

The combined impact of all this is that farm income in the aggregate is considerably more favorable than it was last year. It appears, according to the Department of Agriculture figures, that net income is going to be up at least \$3 billion this year—maybe some more next year.

The problem is that this is a highly varied situation for individual producers. If you look at crop producers only, it is a very mixed situation. It depends whether or not they were in the PIK program and possibly in Federal crop insurance. It depends on whether or not they were actually hit by drought. I would recall for you that only certain areas of the country were hit. It also depends very importantly on when your commodity was priced this year.

You will also recall at the time that people were encouraged to go to the PIK program they were encouraged to price their crop last spring. Well, anybody that did that, did not benefit from the price run up on a PIK commodity.

On the other hand, any farmer who happened not to be impacted by the drought, such as in some parts of the northern Corn Belt, might have priced either time, so he might benefit or he might not benefit, depending upon the situation.

If you look at livestock producers, it is more clearly a negative all around. There is the direct impact of hay availability, and in some cases the cost of getting it from somewhere else. Then there is the indirect impact that always occurs when grain prices go up, feed costs go up.

The impact on the credit situation, then, is pretty equally varied, from situation to situation. You have producers with an excellent income year making some progress against the debts they will have incurred in the previous 3 or 4 bad years. You have got others that are going to be in a disaster situation. The strange situation is that they may be within the same community and face those opposite circumstances.

It is also probably true that those who were in the most serious condition at the beginning of 1983 were probably subjected to various kinds of loan servicing actions, including encouraging them to go into PIK and crop insurance.

So they may have fared fairly well, while some of their counterparts who were not strongly encouraged into the program are now worse off.

If we looked at the year ahead, I think there may be a few more credit servicing problems this winter than there were last year, and that is partly because there is a normal lag between the income statistics and what happens to credit problems. We really

would not be able to say much about this from our credit monitoring data that we collect quarterly until the December 31 figures come in, because we are in the same situation that Mr. Naylor just described, where payments and servicing actions normally take place over the winter months. If previous years' patterns hold true, it will be the December 31 and March 31 figures that really give you any strong feeling of whether my guesses are correct.

Our current delinquency and default figures are pretty favorable. Most producers are making their commitments. We simply think that there may be a few more with problems next spring.

The System will continue the loan servicing emphasis which the Federal Board reaffirmed in February of 1983, and that is the policy of forbearance which we have discussed rather widely with members of this committee.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you very much.

We appreciate having the benefit of that statement, Dr. Irwin.

Dr. Duncan, please proceed.

STATEMENT OF DR. MARVIN DUNCAN, VICE PRESIDENT AND AGRICULTURAL ECONOMIST, FEDERAL RESERVE BANK OF KANSAS CITY, KANS.

Dr. DUNCAN. Thank you, Mr. Chairman.

I, too, will excerpt from my prepared statement and will comment briefly on three separate sections of that prepared statement.¹

First, to add a comment with respect to the drought and its impact.

One aspect of evaluating drought impact that has not been touched on to any extent this morning is the market price impact.

Dr. Irwin has alluded to it. But, for example, the forecast U.S. average yield for corn in the country declined by some 28 percent this year as compared to the yield of last year. I note that projected yields are off some 54 percent in the State of Missouri, so I understand full well there is wide diversity with regard to the impact of drought.

But market prices have adjusted rather sharply as well. The December futures price for corn on the Chicago Board of Trade increased some 29 percent between June 2 and September 6 of this year. November soybean future prices increased some 47 percent during the same period. Thus, there was the potential for those farmers in a position to take advantage of futures prices to mitigate a good deal of the drought impact. And as has been discussed earlier this morning, a rather wide range of opportunities were available to farmers to mitigate drought impact—to build in some risk management into their business firms through the use of PIK, the use of Federal farm crop insurance, for example.

Let me comment briefly on farm financial conditions in the mid-section of the country.

Our bank does a quarterly agricultural credit survey. I am going to share with you the flavor of our October 1 credit survey, using preliminary data. The results we have obtained generally are re-

¹ See p. 97 for the prepared statement of Dr. Duncan.

flective of conditions in the Chicago and Minneapolis Federal Reserve Districts as well. We find that there has been some continued modest improvement in agricultural credit conditions.

The availability of funds continues very favorable, loan demand is down a bit, farmers are repaying their loans more rapidly than they were a year ago, they are less frequently requesting extensions and renewals of those loans. Indeed, about one-half of the agricultural banks in our Federal Reserve district are actively seeking out new farm loans.

Parenthetically, I should note that banks obviously want new loans of good quality and that presents a real problem for those farmers who may not be in a particularly creditworthy position.

Despite some improvement in the credit conditions, our data suggest that financial pressures continue to take their toll of farmers. For example, again based on preliminary data, the proportion of farmers in our district that have left farming because of financial stress over the past 6 months is about 2.7 times greater than normal, according to the bankers that we survey. About three times as many farmers as normal are partially liquidating their businesses—that is, selling some assets without going out of business. And we, along with Dr. Irwin, would expect that exits from farming because of financial stress will continue to be substantially higher than normal during 1983 and 1984.

I should note that lenders appear to be exercising extra forbearance in dealing with problem loan situations. As one banker indicated to me recently, they are dealing with those situations one at a time. That is, they are doing as much as they can for each borrower when that person's situation is under consideration. They also appear to be exercising particular forbearance in the area of foreclosing on farm lands. When that farm land is acquired by lenders, it is probably going to be held for a number of years and resold over time to prevent an undue decline in farm real estate values.

I note an important change in the market for farm real estate. Demand factors have been the primary determinants of farm real estate values during the post World War II period. But, for the next few years the supply of land on the market will also be a very important determinant.

Loan problems do continue to be apparent and in a drought as widespread as this year's, it is clear that there are going to be questions about the appropriate use of public credit in alleviating the accompanying financial stress.

Let me make a few very brief comments with regard to that subject.

As you have learned this morning, there is a large proportion of counties in the United States that either have qualified for disaster lending or have requested disaster designation. Some policymakers and farmers would argue that even the rather generous provisions of Government lending ought to be expanded. That argument has an intuitive appeal, particularly if one believes that an infusion of credit at below market rates and on soft terms is the only protection that farmers have against the drought, and that such intervention would enable farmers to return their businesses to financial health.

It seems to me that the line of reasoning is probably incorrect on two points, however.

First, as we have learned this morning, there is a rather broad range of program options available to farmers to mitigate the impact of drought or other risks on their businesses, on both an ex-post and ex-anti basis.

Second, it seems to me that there is very little evidence that emergency credit programs have been successful in turning farm businesses around and restoring them to financial health. More often than not, these programs have granted far more credit than a farmer can reasonably hope to repay. Thus, the financial viability of the farm has been buried under a burden of debt that when granted appeared to be a godsend to that individual borrower.

Thus, we are in a very difficult economic and political circumstance in the farm sector. On the one hand there are farmers who indeed have circumstances that are quite desperate. I note that those represent a small proportion of all farmers; making the matter more difficult, of course, is that they tend to become concentrated in certain States and areas of the country. Your State is one of those, Mr. Chairman.

And, on the other hand, there simply is no reason to hope that there will be the kind of sudden and dramatic resurgence in farm prices or export market demand over the next few years that would permit farmers to quickly turn around what are clearly failing circumstances. In short, it seems to me that these credit programs have not been particularly effective in achieving their stated purpose. Moreover they are probably viewed and used in many circumstances as though there were a substantial grant or income transfer component to the programs.

I am not suggesting that there are no circumstances in which such a program is useful. Indeed, for some relatively new entrants into agriculture, or for those who have had repeated bouts with natural adversity, a loan program may be entirely appropriate.

Rather, I am suggesting that broadening those programs, may not accomplish the goals that are stated in political circles or in farm circles and may set in motion even more difficult adjustment problems a few years down the road.

With that, let me conclude my remarks, Mr. Chairman.

Senator COCHRAN. Well, I really appreciate your statement, Dr. Duncan. It is, I think, indicative of the seriousness of the situation that we face, to realize how complex the problems are that the American farmer is facing today.

Your description of the economic impact of this drought on farmers generally throughout the country, I think, is very interesting to hear and will be a valuable part of the transcript of these hearings and will help us better understand what action, if any, is indicated by the Congress to try to improve the Government's response to the problem.

I was encouraged to hear the numbers about the increased income that we are going to see this year. I think both of you alluded to that. The income to farmers is projected to be up this year, in spite of the drought, because of the increased market prices in most of the commodities to the farmer.

Of course, this does not include those in livestock production because of the increased costs for grain and I suppose the impact of the drought conditions on pastures and haying conditions as well.

Dr. IRWIN. Due to the PIK program, we had a lot lower level of production expenses. Of course, that creates problems for local farm businesses but in terms of farm income, it was favorable.

Dr. DUNCAN. The impact of the drought, Senator, will raise farm product prices. Even though livestock prices are depressed currently, after liquidation of some productive capacity I would anticipate substantially higher cattle and hog prices, during much of next year. Thus, the prospect for farm income in 1984 is indeed improved and may well be significantly stronger than in 1983, providing we have normal crop production weather in the country next year.

Beyond that, in 1985 and 1986, there is the potential for some plateauing or possibly declines in net farm income, particularly if Government program expenditures are reduced. U.S. agriculture is very dependent on export market demand and bringing export markets back onstream will require a number of years of economic growth both in the industrialized countries and the developing countries.

Thus, there may be a lag of 2 or 3 years before export market growth comes back onstream in any way like farmers have come to expect.

Senator COCHRAN. In a recent publication released by the Federal Reserve Bank of Chicago, it was stated that the debt to asset ratio will likely remain at a level unprecedented since the early 1940's, despite the increase in net farm income.

How secure is the \$216 billion in debt that is owed by farmers and is there any particular group of farmers that will have difficulty in repaying that debt?

Dr. DUNCAN. Mr. Chairman, answering the first question, it seems to me that debt is indeed very secure. Agriculture is, as an industry, not heavily leveraged.

Having said that, it is important to note that there are subsets of that industry that carry substantially higher leverage ratios than the industry as a whole.

For example, those farmers who are large and sell \$100,000 or more annually in farm products probably have debt to asset ratios on average of perhaps twice that of the sector as a whole. Again, adding to the complexity of analyzing this problem, there are quite a large number of farmers who carry very little long-term debt and some who carry very little short-term debt. There is a very wide disparity among the financial condition of farmers in the country. For most, their financial conditions are relatively favorable and they are able to ride out the drought and be around to continue to produce when good times return.

But for that relatively small proportion of farmers who are in significant trouble, many are going to have to reduce their debt levels by either selling off some assets or possibly by going out of business. That, of course, makes the political and economic decisions related to those persons so difficult.

Senator COCHRAN. There was some conversation earlier in the hearing about interest rates and the fact that the Farmers Home

Administration had reduced the interest rates under their disaster assistance program from 8 percent to 5 percent.

As you know, the Farmers Home Administration emergency loan program provides that creditworthy borrowers must pay a market rate of interest for their loans.

Is that an assistance program at all?

I understand that the Farmers Home Administration calculates the market rate of interest to be 13.75 percent. Some farmers are telling us that is too high.

I wonder by comparison what the interest rate is that is charged by the Production Credit Association at this time?

Dr. IRWIN. There are over 400 credit associations in the country, and each of them establishes its own rate, so I have to give you a range, and that range would be predominantly in the 11- to 12-percent range plus the stock ownership.

However, there are associations lower than that, and there are those that are well above that range.

Senator COCHRAN. What about the question that I raised, about whether or not the 13.75 percent rate of interest is really a benefit to a farmer or should he go out into the market through a traditional lender and get a better deal?

Dr. IRWIN. Well, provided he qualifies, I presume he wants to go to the best possible source.

I assume you are talking about interest rates on disaster programs where people are eligible to go to Farmers Home even though they might get credit elsewhere.

Senator COCHRAN. Right.

Dr. IRWIN. If they can get the credit elsewhere cheaper than I am sure they are going elsewhere.

Senator COCHRAN. So this program, this aspect of the Farmers Home Administration program, does not provide much of a benefit to a farmer who has good security and who really does not need Government assistance in terms of loan assistance as a source?

Dr. IRWIN. Yes, as I understand it, the Farmers Home programs were never intended to deal with this—

Senator COCHRAN. Then most farmers that are going to be taking advantage of the economic emergency loan are not going to be able to get credit anywhere else?

Dr. IRWIN. As I recall the provisions of that law, there are two different bases which might trigger it. One basis was that the borrower could not get money elsewhere. The other basis was that the borrower's existing lender has no funds. That is never true in the case of PCAs, and it is also currently not true of commercial banks—so, basically, I think you are right.

The program will be triggered by people who cannot qualify elsewhere.

Senator COCHRAN. And that rate of interest has been dropped from 8 percent to 5 percent for them. Is that for all categories of borrowers, or do you know?

Dr. IRWIN. I believe that is the natural disaster loan program, and only up to \$100,000 of money.

Dr. DUNCAN. The balance of the loan is at 8 percent for those farmers who do not qualify for credit elsewhere.

Senator COCHRAN. The operating loan limit is another problem I think we have in the agriculture sector. For a farmer who is engaged in business today and farming a normal sized or average sized farm, \$100,000 does not go very far in putting in a crop, does it?

Dr. IRWIN. I believe we presented testimony last spring supporting some increase in those limits on that same basis.

Senator COCHRAN. Would your opinion be about the same today as it was then, that we need to increase those limits to \$300,000 or maybe even more?

Dr. IRWIN. I guess all we said was that the limits in that specific bill were better than \$100,000. I do not think we addressed what a reasonable limit might be.

Senator COCHRAN. Well, the Senate approved that, the Senate Agricultural Committee has supported that change and I hope that we can see Congress respond to that need. I think it could help farmers, particularly in areas of the Southeast where we do have such large numbers who are unable to qualify for credit from traditional sources and have to depend upon the Farmers Home Administration for credit.

Well, I think your testimony today has really helped broaden our base of understanding of the economic consequences of the drought this year, and how the Government programs that are in place are going to affect farmers' ability to continue in business and to withstand the problems brought on by the drought.

As I mentioned at the beginning of the hearing today, we are going to continue our efforts to study this problem.

Our next hearing is going to be in Memphis, on October 31, where we will look at the specific problems of the Midsouth.

Until then, this hearing is adjourned.

Thank you very much.

[Whereupon, at 12:28 p.m., the subcommittee recessed, to reconvene at 9:00 a.m., Monday, October 31, 1983, in the Holiday Inn—Rivermont Hotel, Memphis, Tenn.]

EFFECTS OF THE 1983 DROUGHT ON AMERICAN AGRICULTURE

MONDAY, OCTOBER 31, 1983

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Memphis, Tenn.

The subcommittee met at 9 a.m., in the Holiday Inn—Rivermont Hotel, Hon. Thad Cochran (chairman of the subcommittee) presiding.

Present: Senator Cochran.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. Good morning. I want to welcome everybody to the hearing this morning.

This hearing is being conducted under the auspices of the Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices, which is my responsibility to chair in the U.S. Senate.

We had hearings several days ago in Washington talking with representatives of the Department of Agriculture and other interested persons trying to assess the impact of the drought this year on agriculture throughout the country.

This Memphis hearing is designed to focus specifically on the problems of farmers and others engaged in agribusiness in the Mid-south to determine the sufficiency or the inadequacy of our disaster assistance programs that are administered by the Farmers Home Administration and the Federal Crop Insurance Corporation. Also, we will be looking at legislation that has been introduced by me and Senator Huddleston of Kentucky that make some changes in the disaster assistance and other Farmers Home Administration programs in an effort to improve the response of the Government to the needs of agriculture as a result of the bad weather that we've had this year. Specifically, that legislation will increase operating loan limits from \$100,000 to \$300,000, and make some other changes in addition to those that have already been announced by the Department, such as reducing the rate of interest on loans to borrowers. Your being here is going to help us make decisions on legislation of that kind. It will also better enable us to influence action by the administration to insure that everything that can be

done is done to help farmers overcome problems that have been encountered this year due to adverse weather conditions.

The number of counties throughout the country that have requested disaster assistance, we are advised, is now 1,409 from 31 different States. This indicates the widespread problem that has been encountered this year by reason of the drought.

We are happy to have as our first panel this morning the commissioner of our Department of Agriculture in Mississippi, Mr. Jim Buck Ross; the commissioner of the Louisiana Department of Agriculture, Mr. Bob Odom; and Mr. Hugh Arant, president of the Mississippi Farm Bureau.

If you would come forward we will start the hearing by including your complete statements in the record and we'll ask each of you to make whatever summary remarks you have to the committee and that will give us an opportunity after each of you have concluded to ask questions.

Commissioner Ross, we surely appreciate your participation, and being our leadoff witness. We ask you to proceed in any matter you choose.

STATEMENT OF JIM BUCK ROSS, COMMISSIONER OF AGRICULTURE AND COMMERCE, STATE OF MISSISSIPPI

Mr. Ross. Mr. Chairman, my name is Jim Buck Ross. I'm the commissioner of agriculture and commerce for the State of Mississippi.¹ I appreciate your holding the subcommittee hearings on the economic impact of the 1983 drought and how well farmers have coped with it.

Furthermore, I appreciate your inviting me to testify on those issues which are of most concern to me. I understand the objective of the hearing is to determine how effective the disaster and crop insurance programs have been and how effective current emergency loan programs will be in responding to the needs of farmers who are facing serious economic problems as a result of the drought.

I'd like to start by discussing a couple of issues which are of major concern to me: These are deficit spending and our national debt.

If you remember, Senator, many years ago you and I appeared as speakers at the Mississippi Cattlemen's Association. I had the honor of preceding you and at that time, I think it was almost 10 years ago now, I was talking on the danger of deficits and that some day down the road we would be in a very bad economic situation. And I believe, I don't want to say I told you so, but I believe that that situation has arrived. But the ominous character of present trends is seen in the fact that the ratio of Federal debt to the national income has fallen from the end of World War II until 1974 is now rising again and it will continue to rise unless prospective deficits are reduced. But if the ratio of debt to national income rises, the ratio of interest burden to national income almost certainly rises. That makes it hard to keep the deficit from rising and the debt from rising faster.

¹ See p. 106 for the prepared statement of Commissioner Ross.

The process is cumulative and may reach a point where there's no alternative to repudiation by inflation or otherwise. I think that's the dangerous thing we're facing today.

Now, whether we can get a constitutional amendment that the Nation can't spend more than it takes in, I don't know, but I think that that probably is the only answer to the question.

Until 1930 the Government's role in agriculture was limited largely to supporting research and distributing research results to farmers. These were supported largely by States through land-grant universities, agricultural experiment stations, and the State Federal Extension Service.

Government involvement in the agricultural economy greatly expanded during the 1930's when agricultural prices plummeted in the face of growing surpluses and sagging demand.

During the depression years the Federal Government implemented a vast array of programs affecting soil conservation, producer finance, and price supports, all of which were geared to improve the farm economy.

World War II and the Korean conflict influenced the economy heavily by stimulating demand and reducing the supply of labor, forcing a rapid modernization of the U.S. agricultural production plant.

In the early 1950's domestic food surpluses combined with shortages in many parts of the world encouraged the passage of Public Law 480, the Food for Peace Act of 1954.

For nearly two decades the food for peace program was the critical surplus disposal vehicle, either through direct contributions or through long-term concessional sale arrangements.

Meanwhile, capital displaced labor as the driving force behind the spreading technology of U.S. agriculture. In 1935 the United States had 6.8 million farms, then we fell to 2.4 by 1983. During this period the Federal Government's role shifted in agriculture. The Agriculture Act of 1973 introduced the target price concept, a mechanism designed to make U.S. commodities more competitive in the world market while protecting domestic farm income. Indeed the significant features of the 1970's was the emergence of the foreign markets to American agriculture, and exports skyrocketed from \$6.8 billion in 1970 to \$43.8 billion in 1981. Also, I believe that the agriculture of 1973 introduced ASCS disaster payments for so-called program crops.

The United States has been blessed with agricultural resources capable of an abundant production. Productivity has always been the trademark of American agriculture wherein only 3 percent of America's population is engaged in farming, which not only feeds this country but provides the single largest source of export.

Ways must be found to cope with emergency situations.

Year after year there are always some natural disasters in some part of this great country.

Furthermore, natural disasters do not always cover an entire State or entire county. A good example of this is in my home State of Mississippi where the northern approximately two-thirds of the State suffered natural disaster in 1983. In approximately 51 of the 82 counties in Mississippi, crop yields were severely reduced due to

drought and high temperatures during the period from the first of July to the middle of September.

It is my understanding that under the current administration there are two primary disaster programs available to the farmer. One is the new and expanded Federal crop insurance program which covers the basic crops such as cotton, corn, wheat, grain sorghum, rice, and soybeans. This program is optional with each farmer and he must pay the premium for the coverage selected. Practically all cropland in Mississippi is classified as eligible for crop insurance, therefore, the "crop disaster payments" formerly made by the Agricultural Stabilization and Conservation Service have been discontinued. Although participation in the Federal crop insurance program is low, apparently the program is working fairly well. One farmer in north Mississippi wrote me, "The Federal crop insurance program has been a life saver for lots of farmers in northeast Mississippi." Obviously, one of the most useful risk management tools available today is Federal crop insurance. As I understand, the two major objectives are to make insurance protection available to more farmers and to make it more affordable to more farmers. I think we will see a greater use of crop insurance in Mississippi in 1984.

The second major disaster program is the emergency loan program administered by the Farmers Home Administration. In counties declared disaster areas, it is my understanding that farmers with credit problems can receive 5-percent loans on the first \$100,000 they borrow and 8-percent loans on any amount over \$100,000. And I'm certainly glad to see you gentlemen recognizing that farmers in nondisaster counties can apply individually for disaster loans. I think that's one of the best steps forward that we have had.

Senator, these rains have been spotted. Where they've had water, they've made a good crop. Where they have not had water in a season, they've had a disaster.

Third, I recommend the emergency livestock feed program administered by ASCS for a number of years be activated. And I understand the Secretary can do that without any legislation. It is my understanding the Agriculture and Food Act of 1981 provided discretionary authority to the Secretary of Agriculture to give emergency feed aid to both livestock and poultry producers hit by natural disaster. And at this point let me pause and thank you sincerely for trying to help the poultry producers of Mississippi participate in the PIK program. We were unsuccessful, but we are most grateful to you for your help and effort in that regard.

Prior to the 1981 act, the Secretary was authorized to give emergency feed aid only to livestock producers. In my opinion livestock and soybean producers are the two commodities in Mississippi hardest hit by the drought. I would like to see a low interest loan program for those cattle and soybean producers who are affected by the drought and high temperatures this summer. I would also like to see an emergency livestock feed program authorized for livestock producers.

Now, Senator and Mr. Chairman, I believe sincerely the American farmer deserves help during a time of crisis. Agriculture deserves help. If we can bail out other countries, Communist coun-

tries that have been loaned money by the International Bank, if we can bail out big corporations in this country, if we can spend billions on defense, if we can loan Morocco \$100 billion to mine potash with and export it to this country when we already have potash mines in this country faced with closing down, then surely we can help our farmers.

A farmer can have the best research in the world. He can have the best farm equipment. He can have the best land. He can work until he's exhausted, but unless he has a season he labors in vain who builds it. He doesn't have any control over the weather.

Mr. Chairman, it's been a real pleasure to be with you and I express my appreciation for the opportunity to make these comments. Thank you, very much.

Senator COCHRAN. Thank you, Mr. Commissioner. We always appreciate hearing from you and as always your statement is right to the point and very eloquently stated. We appreciate your leadership in our State very, very much.

Commissioner Bob Odom from Louisiana Department of Agriculture, welcome.

STATEMENT OF BOB ODOM, COMMISSIONER, LOUISIANA STATE DEPARTMENT OF AGRICULTURE

Mr. ODOM. Gentlemen, I am Bob Odom, Louisiana commissioner of agriculture.

I appreciate the invitation to testify today and commend you, Mr. Chairman, for holding regional meetings that allow grassroots participation to help make decisions on the dire problems which face this Nation's agriculture when disasters such as the one in 1983 occur.

I hope that through hearings such as this one today, you will be able to make the decisions that will allow agriculture to prosper again. It is the only major segment of the U.S. economy which has shown a favorable balance of trade year after year. It provides more than 23 percent of all our jobs and has allowed our citizens to enjoy the lowest per capita food cost of any nation in the world.

In 15 northeast Louisiana parishes the drought was severe. This area contains most of our prime Mississippi Delta farmland.

Eight northeast Louisiana parishes experienced 30 percent or more losses to crops parishwide. This involved 6,882 farmers. In an additional seven northeast Louisiana parishes, although parishwide losses did not amount to 30 percent, 2,476 individual farmers did experience 30 percent or greater losses.

Most of the losses suffered in the drought occurred to soybeans, cotton, and pastureland.

It is appropriate to point out that Louisiana probably has suffered more than any other State because we have endured both floods and droughts during the past 3 years. This coupled with depressed farm prices has placed Louisiana farmers in worse financial shape than any other farm sector in the country.

The most recent drought is only one of a series of natural disasters that has affected our State's total agricultural economy. It is safe to say that our farmers are in severe economic strife. The agriculture business side has not suffered to the extent that the farm-

ers or production side has. But agribusiness has suffered and that segment of the rural community that depends on agribusiness has also suffered. Agribusiness has not only been hurt by the recent disasters in the farming sector but they have also had their businesses curtailed by the PIK program. This is not a criticism of the PIK program. I feel that PIK has been a tremendous value to most of U.S. agriculture. It is the opinion of some of my farm leaders that without this program the agricultural economy would be in worse shape and the economy of the United States would not be experiencing the recovery that we are seeing today.

In my invitation to appear today, I was asked to assess the assistance offered by current programs.

In my conversations with leaders in the agricultural community, the consensus is that the Federal crop insurance program as it exists today is not effective because it is not providing the protection it was designed to provide when the disaster payment program was discontinued. The criticism I get is the premiums on crop insurance coverage compared to the benefits received by average and above average farmers make it too costly for those farmers to participate. As a result only the marginal farmers, who have a history of high crop loss, are participating in the program.

Because of these high-risk farmers who participate have greater losses, the premiums increase. As the premiums increase, there are less and less incentives for average and above average farmers to even consider participation.

It is my opinion that the crop insurance program should be structured so that individual farm yields are used as the base rather than average farm yields. I think it is reasonable to assume that if the average and above average farmers participate in the program that loss ratios would be reduced. This in turn would lower premiums and make the program much more appealing to all agricultural producers. Any crop insurance program should be based on the actual individual farm yield as opposed to an average yield.

Second, it is the opinion of farm leaders in my State that the administration of the Federal crop insurance program should be returned to the ASCS office. It is their feeling that the people who are now administering the program are more interested in selling insurance than designing a program beneficial to the individual farmer. The ASCS has many years experience in administering financial programs for farmers and have field offices in nearly every county in the United States to better serve farmers.

Louisiana farm leaders are also concerned about limitations of the emergency loan program. As I see it, the big issue in 1984 is going to be credit for agricultural production. Emergency loans only provide coverage for a farmer's actual loss and do not provide money for him to make his crop the following year.

The emergency loan program should be amended to provide for the granting of production loans as well as crop loss loans, because of the lack of commercial credit available to many farmers.

At the present time, the majority of our farmers fall in the classification that does not allow them to meet the restrictions of production loans with the Farmers Home Administration. Most full-time commercial farmers today exceed the \$100,000 production

loan limitations established by the Farmers Home definition of a family-size farm. Also, because most of our farmers operate on leased land and have a low equity in their total operations, it is often impossible for them to secure production loans in the commercial lending sector. If farmers are unable to get the needed production money, then there is no way that they can serve their existing debt and stay in business.

It has also been my experience in drought and other disasters that regulations governing the emergency feed grain program have become so restrictive that the program no longer functions effectively. The requirement for credit refusal should be eliminated so that a livestock producer with losses has immediate access to feed. What I am saying, gentlemen, is let's provide the feed and then look at the actual loss.

Last year in our State we had the floods and used the feed disaster program. It was so restricted in the wording that three farmers in our State were able to qualify, and a farmer had to be broke before he could get the feed. The cattle had to be fully mortgaged. You have to have no financial assets available in order to receive the feed.

Another possible source of assistance to farmers during a period of disaster is the Small Business Administration. In the past farmers were eligible for Small Business Administration loans during emergencies. Small Business Administration regulations should be amended to once again permit farm loans in emergency situations. This would provide another source of already appropriated funds during emergencies.

However, gentlemen, disasters such as droughts and floods are, in the final analysis, simply the last straw for the farmers already strapped by adverse economic conditions. It is time for the Congress to realize that the farm industry is different from other industries in our country. Most industries operate on a month-to-month or quarter-by-quarter basis. Farmers, however, must operate for a full year before they see any return on their investments.

Farmers in Louisiana and throughout this country are finding it more and more difficult to secure operating capital at reasonable interest rates. The high interest rates that have prevailed over the last year or so have been devastating to farmers, because farmers are unable to make payments on principal on a month-by-month or even quarter-by-quarter basis. Farmers everywhere have an urgent need to borrow operating capital at lower interest rates.

The Congress can provide a solution to this problem. In Louisiana, we are in the process of implementing a new agricultural bond program which will provide some relief to farmers. Our program cannot provide total operating capital, because of the current limitations of Federal laws governing tax-exempt bonds and current IRS regulations. However, Louisiana's new program will provide funds for conservation practices, for new equipment purchases, and for 10 percent of the overall operating cost.

We hope for a program of incentives where we can use tax-exempt dollars as a reduction of the interest rate that the farmers have been paying. Gentlemen, there are three basic things that a farmer has to look at in the year. No. 1 is production, No. 2 is being able to market that crop at a fair reasonable price, and No. 3

is interest rate. If we can provide an answer to one of those problems we surely are a long way in providing them with a way to be able to stay in business.

Under certain circumstances, the proceeds of bond sales may be used for the purchase of necessary equipment.

Passage of national legislation permitting the use of proceeds from the sale of tax-free bonds for production purposes, with reasonable regulations to prevent abuses, is what the farming industry needs, and that is what I am recommending that you look into. If farmers could secure operating capital at reasonable interest rates, it would stabilize the farm economy so that farmers could survive the natural disasters which now place them in jeopardy of losing their farms.

Emergency assistance is certainly necessary for farmers, and I commend you, Mr. Chairman, and the members of your committee for your efforts to provide realistic programs of emergency assistance for farmers.

However, emergency programs are just a part of what is needed in the farm community today. While you work to develop good emergency assistance programs, I recommend that you also look at long-term solutions of the ongoing problem of availability of operating funds at reasonable cost.

Thank you for providing me this opportunity to address you today.

Senator COCHRAN. Thank you, Commissioner Odom. We appreciate your comments and those specific suggestions for changes that you think can be made in the assistance programs that we have.

Mr. Hugh Arant, president of Mississippi Farm Bureau, welcome. You may proceed.

STATEMENT OF HUGH ARANT, PRESIDENT, MISSISSIPPI FARM BUREAU FEDERATION

Mr. ARANT. Thank you, Senator Cochran. I am Hugh M. Arant, a farmer and president of the Mississippi Farm Bureau Federation. I want to thank you for holding this hearing and providing farmers a convenient forum to share our concerns about the plight of Mississippi farmers. We can't just blame the drought of 1983 for the financial instability of our farmers but must admit that the drought certainly contributed to the lack of any meaningful financial recovery for some farmers and caused a larger debt for most.

As you are aware, this year went from one weather extreme to the other with spring flooding that lasted until early June in much of the State to extreme drought that parched most of our counties with exception of those on the coast. Many farmers had already prepared to plant and had expended funds for land preparation, fertilizer, seed, et cetera, prior to the heavy rains and flooding. Their crop insurance would not cover a prevented planting situation and in fact their benefits were reduced by planting late while their expenses in many instances increased with duplicate land preparation. The Federal crop insurance program is not nor will it ever be total crop protection. Many improvements have been made in the past 2 years but our members this fall in the policy develop-

ment process have proposed the following changes to be considered for 1984. I think these are worthy of your consideration:

First. Have all premiums due at the end of harvest season for each crop.

Second. Authority to use FCI 63-C soil treatment history worksheet, to determine soil analysis for past 3 crop years.

Third. Provisions implemented to afford coverage for unplanted crops due to natural causes.

Fourth. Amount of insurance coverage should be based more nearly on fair market value.

Fifth. Insurance based on individual yield history.

It is very evident that with more cooperation between Government agencies such as Farmers Home, ASCS, and the Federal crop insurance agencies, would expedite and remove many roadblocks in having loans executed and insurance coverage, payments, and settlements made. Let me share with you an example of what I am talking about that has been discussed with me. A producer has crop insurance and an outstanding loan with Farmers Home. His yield is above his insured amount, and the payment for his crop is paid jointly to him and his lien holder, the premium for his crop insurance is due at harvest and Farmers Home is not required nor will they work to release enough money from the crop to pay his premium. This causes the producer further difficulty and subsequently no crop insurance for future crops.

Farm credit is going to be extremely important in 1984 and subsequent years as farmers strive to repay their obligations and rebuild equity in their operations. As Farm Bureau policy states,

We oppose efforts to establish Federal budget control over the Farm Credit System. We oppose any changes that would restrict the Farm Credit System long-term entry to the financial markets and its ability to provide a dependable source of credit at all times for agriculture.

Farm Bureau policy further states as related specifically to FmHA:

We are in agreement that both the guaranteed and insured loan programs of FmHA should be continued, especially farm ownership and farm operating loan programs. Adequate funding should be provided to meet the legitimate needs of eligible farm families. Adequate and competent counseling and supervision should be available to all borrowers needing it.

Farmers Home Administration should give first priority to farmers who cannot qualify for other financing. We are concerned by the possible unwise use of FmHA's present services and loans. We recommend a reevaluation and revision of the FmHA's present loan qualifications and loan limits. Loans once made should be subject to periodical review to meet the test of commercial lending institutions. However, FmHA, Small Business Administration, and other financial institutions should consider economic conditions over which the farmer has no control and reschedule loans on an individual basis.

The impact of the 1983 drought on the livestock sector of Mississippi agriculture has been devastating to say the minimum. It has contributed to the situation of lower prices that the producer receives for his livestock as well as increased feed cost that he must pay.

This sector of Mississippi agriculture has been pressured by two major factors: natural disaster and economic disasters. In 1979 Mississippi suffered a drought similar to the one that we are experiencing in 1983. Following the drought until 1983 producers have

faced the burden of unrealistic interest rates that certainly forced many livestock producers in Mississippi to either reduce the size of their livestock enterprise or totally liquidate. The prospects for a profitable year and the hope of recovering some of their previous losses was totally removed in 1983 due to this drought.

Senator, I would like to briefly outline some of the problems that each livestock sector faces that is attributed directly to the 1983 drought. Many beef producers have been forced to reduce their herd numbers which caused beef prices to further decline due to the traditional higher numbers of cattle in the marketplace during this time. It is not uncommon in the drought-stricken areas of the State that many cattlemen have less than one-half of their hay requirements that they normally need for the winter months ahead, and we are aware of some producers that will have no hay because they have been forced to graze pastures that they normally cut for hay. The pork industry in Mississippi is relatively small; however, it provides a good source of income for many part-time and full-time farmers. Due to heavy liquidation of hog numbers outside of our State and higher feed costs attributed to the drought, Mississippi will likely lose more than 15 percent of our pork producers. Feed cost plays a major role in the profitability of pork production and corn, which is a major feed input has increased over 70 percent per bushel in Mississippi since last year. The poultry industry has faced similar problems of higher feed cost, higher utility costs due to increased use of fans, blowers and water sprinklers to lower poultry house temperatures. In addition the industry has faced a higher mortality rate due to heat stress. The dairy industry cannot go unmentioned. From May through August 1983 dairy numbers in Mississippi have been reduced over 3,000 head. We know that the drought cannot take all the blame for the reduction. Feed cost which is the largest input cost for the dairy farmer has increased drastically since last year. For example, the average cost of 16 percent protein dairy feed in September 1982 was \$165 per ton, while for the same period in 1983 the cost was over \$200 per ton.

Governor Winter has recommended 51 counties in Mississippi to be declared disaster areas due to the severe drought. The Secretary of Agriculture has two options available after that declaration that would offer some assistance and at that point he should be encouraged to do that and to make low interest loans and/or an emergency livestock feeding program available. he has expressed his desire to make 80 million bushels of Government-owned damaged grain available for the feed program but legislative authority is needed and let me urge your immediate assistance in that area.

Again, let me thank you for this opportunity to appear and share our organization's many concerns about the effect on the farm community with the drought of 1983 and the present credit slump that most producers find themselves in. Thank you.

Senator COCHRAN. Thank you very much, Mr. Arant. When we were having our hearing in Washington, officials there testified that the drought this year is probably the worst that the country has experienced in 50 years. And because it is, I think it's going to put to a test all of the programs, disaster programs, Federal crop insurance programs that we have on the book, and we need to carefully monitor the administration of each of these programs to make

sure that the maximum benefit is being made available to individual farmers under the program. That's my concern. It's my hope that this hearing will help equip the members of the committee with facts and information necessary to influence decisions by the Government and this administration that will make those benefits more accessible and readily available. I was glad to see the administration reduce the interest rate from 8 percent to 5 percent on the first \$100,000 of disaster loans. I'm worried that these other interest rates under the program are still too high to afford any real benefit to some farmers.

For instance, I know that under the Farmers Home Administration emergency loan program if a farmer can get credit elsewhere he is entitled to a disaster loan but only at 13.75-percent interest if the disaster occurred after May 22 and 14.25-percent interest if his disaster occurred before May 23d of this year. I worry about whether that emergency loan program offers any real benefit to farmers. What is your reaction to that, Mr. Arant?

Mr. ARANT. I would definitely say it offers no benefit whatsoever. Sure that's a lender of last resort and if you can't get it anywhere else you'll have to pay it, but it certainly puts a burden on him that he can't overcome any time soon. Same thing that we are facing now from some of the previous high interest years of the early 1980's on that. So I really doubt that that will be of any benefit whatsoever, Senator, and looking at the \$100,000 limit that's already on even the 5 percent, it's going to eliminate a whole lot of our farmers from qualifying for that.

Senator COCHRAN. Our Senate Agriculture Committee had approved a farm credit bill that's pending before the Senate now. Whether or not it can get to the floor and be considered before the end of the year, I don't know, but we are including in the drought assistance bill that Senator Huddleston and I introduced, some of the provisions of that credit bill, and one of them was to increase the loan limit to \$300,000 for operating loans. It seems like \$100,000 now just doesn't go very far. If you have any size operation at all you are not going to be able to put a crop in with that size loan, or if you are in any other kind of farming operation it's similarly not very helpful.

Well, I appreciate this panel very much for being here and starting this hearing in the way that you have. You've been excellent witnesses and thank you very much for being with us this morning.

Our next panel includes Ralph Weems who's president of the American Soybean Association. Mr. Weems is a farmer and he's from West Point, Miss.

Mr. John Barr III, chairman of the producer steering committee of the National Cotton Council and a farmer from Oak Ridge, La.

Mr. Cecil Williams, executive vice president of the Agricultural Council of Arkansas, from West Memphis, Ark.

I want to welcome each of you to today's hearing and thank you for cooperating with the committee in accepting the invitation.

We'll call on Ralph Weems first. We have copies of some of your statements and they'll be incorporated into the record in full and we ask you to make any abbreviated comments that you chose to at this time.

STATEMENT OF RALPH WEEMS, PRESIDENT, AMERICAN
SOYBEAN ASSOCIATION

Mr. WEEMS. Thank you, Senator Cochran. I and the American Soybean Association sincerely appreciate this opportunity to discuss the situation faced by U.S. soybean farmers in the wake of this summer's devastating drought and the continuing world recession. American farmers are fortunate to have a person of your ability and concern representing our interests in Washington.

American soybean farmers were hit hard by the drought of 1983. Total U.S. soybean production this year will be 1.517 billion bushels, the lowest since 1976, and almost 32 percent less than the 2.23 billion bushels produced in 1982. The drought was widespread, but was particularly bad in the Eastern corn-soy belt, the Southern Atlantic States, and here in the Midsouth. Of the 30 States producing soybeans only North and South Dakota had larger soybean crops this year than last. The national average soybean yield for 1983 will be 24.7 bushels, the lowest since 1974.

It is important to note that this year's greatly depressed soybean crop was the result of drought and reduced plantings only. Soybeans, luckily, were not part of the payment-in-kind program or any other production control program. Planted acreage of soybeans this year was only 61,448,000 acres compared to 70,783,000 in 1982, but the decrease was the result of decisions based on the perceived lack of profit potential from producing soybeans versus other crops. It is indeed fortunate that no production control program for soybeans was placed in 1983 as an even smaller 1983 crop would have been a disaster for our industry.

As it currently stands there will not be a problem of the United States meeting projected domestic and foreign demand for soybeans and soybean products. With this year's total demand projected by USDA to be 1.784 billion bushels we will draw down our carryover stocks to only about 120 million bushels, but there is not risk of us running short of soybeans. Cash soybean prices are and will be much higher in this marketing year than during the 1982-83 marketing year, but it is those higher prices which will ration demand until next year's crop is harvested. Overall, the soybean industry's supply-demand situation is good with profitable prices expected for the remainder of the marketing year.

Unfortunately for those farmers hard hit by this last summer's drought, high prices are of little consolation. If a farmer didn't produce many soybeans this year, there is no way he can take advantage of the higher prices. Yet, drought and other farm disasters are a fact of life for farmers. The only difference between this year's drought and most of those that have come before was its impact on such a large area of the soybean producing area of the country. And it came after 3 years of low prices, and during a period of general farm economic crisis. It only made matters worse.

At the same time, this year's drought may have a silver lining in the long term. Because of the drought the burdensome surplus of soybeans and soybean oil that have overhung the market will be largely eliminated. Prices are at profitable levels now and there is every likelihood that farmers will see a substantially higher profit potential from their upcoming crop than in any of the last 2 years.

In the wake of this summer's drought there is a temptation to press for an expansion of Federal assistance to farmers. Yet, in ASA's opinion current disaster provisions are adequate to meet the credit needs of efficient but hard-hit farmers suffering credit and cash flow difficulties. We do not support an expansion of direct Federal disaster assistance to farmers beyond those programs currently available.

ASA does, however, believe the Congress should take a closer look at the programs of the Federal Crop Insurance Corporation with an eye toward making Federal crop insurance more attractive to farmers. Presently, crop insurance just isn't economical for many soybean producers. In my case, the maximum yield protection I can get for soybeans from FCIC is 17 bushels per acre. In all the years I have produced soybeans, including this year, I have never produced as little as 17 bushels of soybeans per acre. Thus, crop insurance is just out of the question for me. Thousands upon thousands of other farmers are in the same situation. In other cases the premiums charged by FCIC are so high they make participation uneconomical. If there is ever going to be widespread participation in Federal crop insurance, FCIC must make the program attractive to producers. Loss inspection procedures must be uniform and claims must be settled expeditiously.

Finally, Mr. Chairman, we urge the Congress not to let the drought of 1983 take its attention away from the overriding problems facing American agriculture in the future. Barring a highly unlikely repeat of this year's drought in 1984, there is a good chance the United States will produce a near record crop of soybeans in 1984. Unless we are able to measurably expand world demand for our production we will find ourselves once again in an oversupply situation in 1985, the year a new farm bill will be written.

ASA believes the best thing the Congress and administration can do now is develop and fund programs which will build new, lasting demand abroad for U.S. commodities. Instead of spending billions of dollars domestically on stopgap acreage control programs, we should be spending the money abroad building the infrastructure needed by developing countries to efficiently import and utilize our commodities. We must get our competition to end their export subsidies or make sure our exports will be just as competitive as theirs. We must protect our export markets in Europe and elsewhere and not hesitate to retaliate against nations that put up barriers to our exports. We must also make sure creditworthy nations unable to get affordable credit from commercial sources are able to get Federal loans or loan guarantees in amounts sufficient to cover their import needs.

Finally, our domestic soybean loan program must continue to be market oriented. Our current loan program is working and we want it continued next year and thereafter in its current form. The world market rather than Federal storage bins must continue to be the destination of our production. All we need are strong Federal programs that will allow us to sell our production.

Thank you again, Senator Cochran, for this opportunity to present ASA's views on the summer drought, and the economic and export needs of the soybean industry.

Senator COCHRAN. Thank you very much, Mr. Weems, for your excellent statement and presentation to the committee. We're going to go on and take testimony from the other members of the panel before we get into questions and I'd like to call on John Barr, who's here with us from Oak Ridge, La. He's chairman as I said of the producer steering committee of the National Cotton Council.

John, you may proceed.

**STATEMENT OF JOHN S. BARR III, CHAIRMAN, PRODUCTION
STEERING COMMITTEE, NATIONAL COTTON COUNCIL**

— Mr. BARR. Good morning, Senator. Just let me begin by saying thank you very much for the opportunity of being here before you today and as you mentioned I am John Barr and chairman of the producer steering committee, National Cotton Council, and it's in that capacity that I appear here representing producers, handlers, and manufacturer's from the Carolinas to California for our commodity, cotton.

This year's drought apparently was the most damaging and widespread we've had in at least 30 years. Just about all of the eastern two-thirds of the Cotton Belt was seriously affected.

The most fortunate farmers may prove to be those in the dryland areas of the Texas High Plains who didn't get enough moisture to even plant a crop. At least they saved the out-of-pocket costs of trying to make a crop and having nothing to show for it. I'm sure you'll be hearing the details from other witnesses.

One rather certain result of this drought will be to convince many farmers who have been depending entirely on rainfall that supplemental irrigation is an absolute necessity. Such as investment, of course, will add substantially to their overhead and make it even more essential to increase their efficiency and better protect their crops from insects, weeds, and disease.

But if this efficiency and crop protection is to be achieved, we simply must have an adequate research program.

As you well know, Mr. Chairman, the council over the past few years has testified before your Agricultural Appropriations Subcommittee about the sharp reduction in USDA scientist man-years devoted to cotton research. We know you heard us because when USDA came before you for its 1984 appropriation, you questioned them closely about their 6-year plan for agricultural research. As we understand it, the plan would mean even further reductions in cotton research, especially in the area of plant protection. We greatly appreciate your instructing USDA not to implement that 6-year plan until it showed Congress the specifics and got approval.

We also appreciate your providing the USDA share of funding for the boll weevil eradication program in the Carolinas and your restoration of funding for the boll weevil and pink bollworm suppression programs.

Mr. Chairman, this area is indeed fortunate to be presented by people like you and Mr. Whitten who are in influential positions in Congress and who understand so well the importance of sustaining a strong and productive agriculture both here and throughout the Nation.

Cotton producers are gravely concerned about the direction public cotton research seems to be taking. The council's producer steering committee, at its meeting 2 weeks ago, unanimously adopted the following resolution:

Recognizing that further improvement in cotton productivity by reducing production and processing costs and/or increasing yields is a key factor in helping U.S. cotton and its products compete for markets;

And also recognizing that, as is the case with most agricultural commodities; federal research funds represent a vital part of cotton's total program;

The Producer Steering Committee therefore, expresses grave concern over the continued erosion of Federal funding for agricultural research in general, and specifically over the changing emphasis in research objectives as reported in the ARS 6-year research implementation plan; and

Recommends that the National Cotton Council carefully monitor proposed changes in USDA-funded cotton research—in systems integration, soil and water conservation, commodity conversion and delivery objectives, and especially in the crop productivity and plant protection areas—and strongly oppose any reduction or shift that would be detrimental to cotton.

Again, Mr. Chairman, we greatly appreciate your being here and holding these hearings here in Memphis where they're so convenient, and appreciate your allowing me to testify today. Thank you for the opportunity to present our views.

Senator COCHRAN. Thank you.

We're glad to have Cecil Williams from Arkansas.

Mr. Williams, you may proceed.

STATEMENT OF CECIL WILLIAMS, JR., EXECUTIVE VICE PRESIDENT, AGRICULTURAL COUNCIL OF ARKANSAS

Mr. WILLIAMS. My name is Cecil Williams and I'm executive vice-president, Agricultural Council of Arkansas and my statement, and let me apologize, I don't have my statement ready to hand in, but I will get it to you.¹ I simply have not had time. My statement is based on what I thought was the assignment I had to report on, what the situation is in Arkansas. So after learning of this hearing I spent a lot of time on the telephone trying to find out as much as possible about the financial situation of farmers in the eastern half of the State which we covered. I already knew about the crop situation. It is very poor except for those producers who were able to irrigate. We learned some lessons again this season, Senator, and that is during extremely dry years cotton does better than almost any crop we can produce. We found that milo did surprisingly well under drought conditions. Wheat, of course, was not bothered by the drought because it is grown in the spring when you usually get rains and many times too much. We learned that soybeans, the Cinderella crop, that either the glass slipper breaks or the midnight comes all too soon. Dryland soybean yields are uniformly disastrous. Yields of 5 or 6 bushels per acre are common. A 15 bushel dryland yield is considered very good. Thousands of acres of beans behind wheat will be harvested because they're so poor. Only the irrigated beans will allow Arkansas to approach its statewide estimate of 18 bushels per acre. The financial well-being of farmers across the United States began to deteriorate with the advent of the Russian grain embargo in 1979. The drought of 1980 serves to

¹ See p. 110 for the prepared statement of Mr. Williams.

aggravate the situation especially in the South. Farmers recovered a little from their dire financial plight in 1981 and 1982 because of persistent low prices. One farmer told me that his 1982 bean, wheat, and rice yields were record high for his farm. He said that in spite of the good yields he lost more money in 1982 than in the drought year of 1980. For the past 3 years farmers have been hoping to hit the jackpot by producing yields and selling their crops for favorable prices. The two have not meshed since 1979.

My informal survey revealed that some areas of the State made slight progress toward financial improvement during 1983. However, in other areas, farmers tended to regress in their struggle for improved balance sheets. Two factors appear paramount in determining whether an area held its own or regressed in 1983. They were the possession and size of cotton and rice basis and the ability to irrigate some or all of the summer-grown crops. Since soybeans have not done well in much of southeastern Arkansas the area tended to stay with cotton and expand rice production. The area also has a history of widespread irrigation of cotton and soybeans. Consequently, some farmers in the region improved their financial condition and most at least held their own.

Most of the farmland in the traditional rice area of Arkansas can be irrigated and most of the farmers have adequate rice basis. Although irrigation in the area is expensive the relatively strong prices for soybeans and PIK program should have kept the area in fairly good shape.

In northeast Arkansas, where cotton and rice basis are scarce and low and where there is little irrigation, the financial plight of farmers generally seemed to deteriorate in 1983. Many farmers in this region grow only wheat and beans. The wheat PIK program was announced so late that farmers—that most wheat growers chose not to plow outstanding crops of wheat in order to participate. Wheat and bean prices have not been very good for a number of years so many of these farmers were already in trouble. Most of them double crop. Most of them would have been better off in 1983 had they not planted the soybean behind wheat. One person expressed the situation, "Many growers are trying to double-up and catch-up and they throw craps in 1983." Naturally there are exceptions in all regions. Some farmers are in serious trouble in central and southeast Arkansas, while some farmers in northeast Arkansas are doing very well. There are even a few farmers who through good management and good fortune will pay more income taxes on farm profits in 1983 than ever in their personal history. Everyone I talked with agreed on two things. First, it is impossible to borrow oneself out of debt. Two, exports will play a big part in the long-term solutions of the U.S. farm program. After these two items there are conflicting opinions. One person thinks that the agricultural industry in his area is basically healthy. Another thinks the industry is holding its own in his trade territory. Now, if you'd like a picture of disaster, I mean true disaster, you should have one of the PCA officials with whom I've talked here as a witness today. I don't think he would appear, but nevertheless, he says that foreclosures have been postponed for 3 years. He's afraid that it will be impossible to delay the inevitable any longer. He is gravely concerned about the domino effect that such events will have. Every-

one feels that disaster loans should be made to those who need them and have a chance to repay them. That's very poor, a chance to repay them. The PCA man said that he already has many farmers who are going to be applying for disaster loans that have a cost of maybe \$30 an acre already on a disaster loan and he considers that a nonproductive loan. And then you add another \$30 onto that and you're talking about \$50 or \$60 an acre just deadweight that's not producing anything and he doesn't see that they've got a chance. But naturally that he wants everybody to see who possibly can. For many there is a great fear that disaster loans only delay the inevitable. One large farmer told me the other day that what he really needs is a grant and he was very serious. The PCA official is concerned about advancing more disaster loans to farmers who have received SBA or FmHA loans within the past 3 years. This PCA official suggests that if Congress really wants to solve the problem of agriculture that what they need to do is legislate high yields and a minimum of \$9 a bushel for soybeans, Mr. Weems, for a couple of years and he thinks that will get us out of the problem.

Now, the Agriculture Council of Arkansas Board of Directors is discussing the possibility of moving toward a market-oriented agriculture in conjunction with some export programs, with a low level loan of course as a safety net. However, I can assure you that most Southern farmers are once again against talking strongly of rigid acreage controls and the consequent control of supplies as a means of solving the price problem of American agriculture.

Even California growers, as Mr. Bart can tell you, are willing to discuss talking about—discuss the freezing of cotton basis. My own conclusion is that agriculture has definitely seen healthier days than it's seeing right now. One problem in looking at this situation, Senator, that I've come upon, in most areas the only organization that is able to make financial loans to many of our farmers who are so large is the fact that PCA is the only one who's able to do this. One farmer told me of a situation where he got crosswise with his local PCA manager and was unable to get a loan from PCA and he's like 100 miles from Little Rock and 75 or 80 miles from Memphis, and most banks just don't like to correspond these loans any more because they say they don't make any money out of them. So, you are down to one lending agency and in these areas the FmHA, Farmers Home, is very important to large farmers simply as a standard source of loans.

Now, I would say that we've had some good statements here this morning about the Federal crop insurance program.

The gentleman from Louisiana and Mr. Arant both, had some good statements in there. I will tell you that your committee several years ago passed a darn good Federal crop insurance program out of the committee and it went over to the House where the insurance industry tore it to pieces and it's not very good right now. We'd like to applaud the agency itself and the board of the Federal Crop Insurance Corporation for the job they are doing. I think Mr. Barr would concur that they are doing their best to make the program work under the present law. I think the only way the program can be made to work on a widespread scale is new legislation. I thank you for your time.

Senator COCHRAN. Thank you for the candid statement and comments and information that you made available to us this morning. I think that our committee is going to have to seriously consider changes in the Federal crop insurance program. I really hate to see Congress become hyperactive, though, and not give a program a chance to work. I can remember when I was in the House of Representatives and was serving on a committee that was charged with legislative oversight of water and sewer treatment plants and the construction of facilities throughout the country to help clean up the Nation's streams and rivers.

It was apparent that the pace of construction of waste treatment facilities was not going as fast as everybody had anticipated, so we worked very hard on some new legislation to stimulate construction by creating new incentives for local governments, and we passed that law. Of course then, EPA had to come along and implement regulations to put the program into effect and explain it to everybody. What happened was they had just gotten used to the old regulations and understood them when they got hit with a bunch of new regulations and instead of speeding up construction it decreased the pace of construction even further. So, even the best of intentions sometimes, especially if you continually change a program, can have a worse effect than doing nothing. I hope that's not the case with Federal crop insurance because I think there are ways to improve the program. There has to be more of an incentive for farmers to participate in it. Right now, I think the level of participation is about 19 percent, isn't that the figure we had? Nineteen percent of the eligible acreage is covered by Federal crop insurance. That's just not enough. It has provided important protection to farmers who do participate, but it doesn't help if they don't have it. So I think that is a very important challenge that we face.

I think your observations that the Senate passed bill was a little more attractive is probably correct and it may be that we're going to have to go back and insist on some of those earlier provisions to help improve farmer participation. The yield problem that Ralph Weems points out is a very real problem. If you can't get the protection that you know you have in order to justify the payment of the premiums you're not going to participate. What reason do they give you? I'm just curious. You say that you could get protection up to about 18 bushels per acre?

Mr. WEEMS. Seventeen.

Senator COCHRAN. Seventeen bushels per acre, but you've never produced that few bushels per acre?

Mr. WEEMS. Well, you see, the county yield it's set and I can't go over that. There are provisions that they say will be coming forth that will take my average yield and use that as my base. When that happens that may help the situation.

Senator COCHRAN. My understanding is that these individual yields will be subject to use in many areas next year. So it could be that you'll have a chance to take another look at that.

I thank this panel again for being here. We appreciate your contribution to the hearing.

We're going to hear from another witness now, Wayne Johnston, from Ripley, Miss.—Tippah County. He's a typical small farmer who understands some of the small farmer's situation. After he

makes a statement we're going to take a few minutes break and give the news media representatives here a chance to ask questions that they might have and everybody a chance to stretch. Then we have two more panels made up of farmers and producers in various commodity areas who will be testifying.

We'll now call Wayne Johnston, from Tippah County, to the witness table.

STATEMENT OF WAYNE JOHNSTON, TIPPAAH COUNTY, MISS.

Mr. JOHNSTON. I appreciate the opportunity to speak today. As you know I have contacted your office to testify today but some mixup came about and we were unable to get things set up. We've heard of lot of things today on the drought and other situations facing the farmer. Most of the things we've heard today are minor problems. Farmers Home Administration is only a minor problem. All these are a result of major problems. The drought is something that's caused by our Maker, he gives us droughts and he gives us good years. The things that don't go away are what's facing agriculture in this Nation. That being the policies of Paul Adolf Volcker and the Federal Reserve System, the policies of the International Monetary Fund, the policy of five major grain corporations, Cargill, Continental, Andrea, Bunge, Dryfus. Those things don't go away and are the problems that are destroying agriculture. If we don't address those problems and change them, then you can mark agriculture off and you can mark this Nation off. If agriculture doesn't survive, this country won't survive. Today that's what I'd like to have our so-called leaders address. Our elected officials need to become leaders. They have been acting like children playing marbles. One thing that we think should be done is a national moratorium on the agriculture debt, on all interest and all principal on that debt. Not to say to forgive that debt, but to set it aside temporarily. It has been done before and it can be done again. It was done by leaders before. Set the debt aside and loan the farmers money from 2 to 4 percent interest for our production enterprises, as you know production money will turn over seven times. This would stimulate the rest of the economy.

If we get the farmers back in good standing, then they can pay off that debt, but with the interest we have now they can never pay it off. They can't pay the interest today much less the principal. Also to go along with the moratorium we need our developing sector, South, and Central America, Africa, those countries that are in desperate need of agriculture goods. We need to make them one-to-one loans where they can buy our agriculture products, can buy the goods they need to survive, for if they don't survive we can't either. We can't exist as a nation, a humane nation, and let other people of the world starve to death, and that's what's happening today. That's the reason most of the major conflicts are going on in the world, because of starvation. These policies are what we need in agriculture today. This is what we need as a nation today and those are what we'd like for you to address as well as all of the other things that you have going. I told your aide that we would speak very briefly and that is more or less to the point. It's kind of blunt, but that's the way we live on the farm,

coming to the point. We appreciate the time you gave us and we appreciate anything that you could do.

Senator COCHRAN. Thank you, Wayne, for coming forward and speaking to the committee as you have. We appreciate having your input into the hearing and your being here. I know that there are small farmers throughout Mississippi, Tennessee, Arkansas, and Louisiana too, in this whole Midsouth area, who probably share your views. A lot of people do.

We have testifying later in the hearings the president of the American Agriculture Movement from Tennessee. There are others that we hear from time to time, and I meet with in Washington, or when I'm back home who express to me views that are similar to yours. I'm glad you've taken time to be here today.

Mr. JOHNSTON. I realize you have an American Agriculture Movement spokesman here. I drove a tractor 1,200 miles to the District of Columbia. At that time we had an American Agriculture Movement. We don't have an American Agriculture Movement today. The people that represent the farmer in Washington and call themselves the American Agriculture Movement have sold out just like every other farm organization that the farmer came up with, they sold out to the ones that controlled them. The ones that represent the American Agriculture Movement do not speak for me.

Senator COCHRAN. Well, we appreciate your being here and speaking for yourself. You've done it very well.

We'll now take about a 10- or 15-minute break and we'll start back at 10:30.

AFTER RECESS

Senator COCHRAN. Our next panel of witnesses includes Johnny Howarth who is a cattleman, farmer, and president of the Mississippi Cattlemen's Association; David Waddell, who's representing William H. Walker III, commissioner of the Tennessee Department of Agriculture; and Tommy Willis, farmer and president of American Agriculture Movement from Brownsville, Tenn.

Would those witnesses come forward and take your place at the witness table.

I'm first going to call on Johnny Howarth who's a cattleman, a farmer, and president of the Mississippi Cattlemen's Association from Cleveland, Miss.

Johnny, welcome to the hearing.

STATEMENT OF JOHNNY HOWARTH, PRESIDENT, MISSISSIPPI CATTLEMEN'S ASSOCIATION

Mr. HOWARTH. Thank you, Senator, and we appreciate this opportunity.

The Mississippi Cattlemen's Association appreciates the opportunity to make a written and oral statement to your committee concerning the adverse economic impact of the drought in Mississippi.

Cattlemen and farmers were already in financial difficulty because of low prices of their commodities and this drought has put many of them in a very precarious position. Our farmers and

cattlemen range from the ones who will make no profit this year to the ones who have made little profit for the last 2 or 3 years with considerable numbers of them owing more on their land and equipment than it would bring on the market.

The year 1983 will long be remembered by the entire American agricultural population, and more especially, by the Mississippi farmers and cattlemen, as the hardest year to survive since the depression years of the 1930's.

With excessive rainfall in the spring of 1983 and a prolonged dry summer, crops and pastures produced less grain and less forage than most of us can ever remember.

In order to examine the effects of the drought on cattlemen, we must first look at the financial conditions of the agriculture segment of our State. Farmers and cattlemen in Mississippi are sharing the same economic problems that are effecting the whole U.S. agricultural economy. You have more facts and figures at your disposal about debt load, cash flow, high interest rates, incomes, and expenses that Mississippi farmers are grappling with than our association could ever assemble, therefore; I will not attempt to refer to exact dollar figures. We all know that the plight of the farmers in our State is very critical and that many will not be able to survive since crops and forages will be especially short this year because of the drought.

Dry weather this summer has caused the movement of many cattle to the marketplace. Prices of cattle are well below an acceptable level at which the cattleman needs in order to stay in business. The PIK program has caused sharp reduction in prices when cattle had to move to market in great numbers from grazing wheat land. Further reduction of prices have been experienced when cattle had to be sold because of dry weather and lack of feed.

In addition, prices will be further lowered if the dairy subsidy that is now being considered in the U.S. House of Representatives becomes law, because it will cause dairy cows to be culled and placed on an already depressed beef market costing cattlemen millions of dollars.

Not only are most Mississippi cattlemen going into the winter with less feed stored, but the cattle themselves will be thinner and will require more feed than usual to carry them through until spring grazing. The actual loss in weight because of the dry conditions has also been an economic loss when cattle had to be sold by weight. There are still cattle to be disposed of because the farmer cannot afford to buy feed to retain his cow herd.

In my opinion, the drought of 1983 will in effect, cause some very serious financial problems in all segments of the agricultural community in Mississippi. Many farmers will survive, but some will be unable to cope with the lack of income that will be the result of short crops caused by adverse weather conditions.

Financial institutions, along with FmHA, will be taking a closer look at the creditworthiness of individual farmers for 1984. We would recommend that FmHA hold to a minimum any foreclosures and only then after much study has been done, with existing circumstances, such as weather conditions, being taken into consideration before a final decision is made.

The cattle people have never depended on direct subsidy or Government payments to keep us in business. We still do not recommend such an approach to our dilemma; but, it is getting increasingly more difficult to stay in the cattle business in an economy that is more and more aided and subsidized by Government, from labor to big business.

We would recommend that you be on your guard to protect our industry against false reports from Government agencies about the health hazards of eating meat. We would urge that organizations, such as animal rights or other antimeat consumer groups, not be allowed to slip in the back door of Congress and get legislative attention to cause radical changes that could adversely affect the whole cattle industry.

Dry weather has caused prices to drop drastically. Dry weather has caused farmers to sell cattle below the economic number that is needed to be a profitable cattle unit. Dry weather has cut winter feed supplies to a critical level. Results of dry weather will cause financial ruin to some cattlemen unless there is some relief that can be had for those who are in dire financial straits.

There is no easy answer to such a complex problem, but we would certainly urge you to watch for any legislative action, embargoes, import or export duties that would further erode cattle prices, or depress the economic position of the producers of food and fiber.

As to the pressing problems of the farmer and cattleman, we recommend that you initiate a program whereby the livestock producers of drought stricken Mississippi may be able to purchase Government-stored grain at reduced prices without having to be so involved with redtape restrictions that would make the program unworkable.

We further recommend that you exert every effort to assist producers to borrow money at reduced interest rates, in a timely manner, in order that they may proceed with plans for 1984 production.

We would appreciate very much anything you can do to relieve the depressed economic situation in which many of our farmers find themselves.

We are attaching a Mississippi map showing the 51 counties that have been recommended by Governor Winter as disaster counties.

In order to get a better picture of conditions statewide we have secured statements from cattlemen and farmers from all sections of the State. These statements will be attached to this report.¹ We thank you.

Senator COCHRAN. I appreciate that, Johnny. And those additional pieces of information that you will include for the committee will be very helpful to us and will certainly be well received by our committee.

Now, I'd like to hear from David Waddell, who's representing William H. Walker, commissioner of the Tennessee Department of Agriculture.

¹ See p. 110 for additional material submitted by Mr. Howarth.

STATEMENT OF WILLIAM H. WALKER, COMMISSIONER, TENNESSEE DEPARTMENT OF AGRICULTURE, PRESENTED BY DAVID WADDELL

Mr. WADDELL. Commissioner Walker couldn't be here today and he asked me to present this statement, but first let me take a moment to welcome Senator Cochran to Tennessee and express my appreciation for the opportunity to present testimony in such important issues.

An unusually wet spring and a delay in planting and one of the hottest dry summers has left many Tennessee farmers in dire straits. I might summarize some of the more important crop areas that have been affected. Burley tobacco has been affected more severely than Dark Fired types. The statewide yield loss has averaged at about a 41-percent loss. This production is nearly 50 million pounds below what would have been produced with an average yield and represents a loss of over \$87 million to Tennessee tobacco farmers. Corn has been severely affected and the heat has caused poor pollination and few or no ear corn relations in many fields. Some corn originally intended from grain is currently being harvested for silage. The State has an average yield loss estimated at an average of 57 percent. The 57-percent reduction indicates a yield of 32 bushels per acre and a production loss of over 25 million bushels. This loss would amount to over \$100 million of profit to farmers. Soybeans although not as severely affected as corn, the weather conditions have stunted growth and is also causing shedding of blooms and poor pod development. The State is estimating a yield loss of over 50 percent, a production loss of 23 million bushels or a dollar loss to Tennessee farmers of \$195 million. Although cotton is generally considered a hot weather crop these conditions have been extreme and have affected the cotton crop. The major producing counties report a 20- to 65-percent loss and the State weighted average is a 46-percent loss. A 46-percent yield loss from normal would indicate a production loss of 96,000 bales or a reduction to the Tennessee farmers of \$34 million. Substantial to total loss has occurred to the fall hay crop. The Tennessee State average is 74 percent loss. Pastures have also been severely affected and cattle are being sold or fed hay and other supplements. The loss is running from 10 percent to 100 percent and the State average is 61 percent of the feed loss. Nearly 700,000 cattle and over 100,000 hogs are receiving additional supplements due to the hot dry conditions. Over 100,000 broilers have died due to the weather conditions. Milk production has also dropped considerably due to the heat.

Governor Alexander requested that all 95 Tennessee counties be declared an agricultural disaster area. The Federal Government has responded to this by declaring 84 of Tennessee's 95 counties agricultural disaster areas. This is welcomed relief to those eligible for assistance in those counties. However, the effect of the damaging weather has spread throughout all of Tennessee. This kind of disaster has its greatest impact on those individuals affected. Individual farmers affected in the drought should be allowed to qualify for such relief programs regardless of the overall percentage of those affected in the respective county. Many farmers that are in

need of assistance reside in counties that have not been declared disaster areas even though they have as great or greater need of farmers in disaster counties. Farmers that do reside in eligible counties must apply on an individual basis to determine eligibility. I propose it would not be an unreasonable modification of the program to allow an individual farmer that can demonstrate need to be eligible for Federal assistance regardless the percentage of those in similar circumstances that may or may not reside in his own county.

Large numbers of Tennessee livestock are being sold off by their owners at unprofitable prices because the unusual weather has reduced the availability of feed to carry them through the winter. The emergency feed program needs to be activated to prevent irreparable harm to the livestock industry. Under this program the Commodity Credit Corporation pays eligible livestock owners a portion of the cost of feed purchased during emergency in which the owners suffered substantial loss of feed production for the livestock due to a natural disaster. In order to be approved for assistance a livestock owner must have suffered a substantial loss of production feed normally produced on the farm as a result of a natural disaster and not have sufficient feed for livestock and be required to purchase a greater quantity of feed than normal.

Many farmers in Tennessee already meet these criteria. Their pastures were depleted long ago and have already begun feeding what little hay, corn, and silage produced this summer. Many are faced with the alternative in selling out at deflated prices or going to the marketplace and paying inflated prices for unusual amounts of feed. The assistance brought by the emergency feed program is needed now. My comments can be summed up in two major points. The disaster relief should be available to all individuals that can qualify for assistance regardless of county residence, and two that the emergency feed programs should be utilized as soon as possible to provide assistance to livestock farmers that meet eligibility requirements.

Thank you again for the opportunity to be heard.

Senator COCHRAN. Thank you, David. We appreciate your representing the Tennessee Department of Agriculture here at our hearings and we appreciate your welcome to the State of Tennessee. Thanks a lot.

Tommy Willis is the next member of this panel. He's a farmer and president of the American Agriculture Movement from Brownsville, Tenn.

STATEMENT OF TOMMY WILLIS, PRESIDENT, AMERICAN AGRICULTURE MOVEMENT

Mr. WILLIS. Thank you, Senator. Mr. Chairman and committee members, I am Tommy Willis, national chairman of the American Agriculture Movement. I am a farmer from Brownsville, Tenn.

I appreciate the opportunity of appearing before you today to relate the impact that the drought has had on farmers and how this will affect their ability to be financed next year.

Gentlemen, we have just experienced one of the worst droughts in history with cotton yields at 50 percent of normal or less and

corn and soybean yields at 25 to 30 percent of normal. There are many farmers in this area who are making 8 to 10 bushels of soybeans per acre. Even though they are selling in the \$8 range, their gross sales will not pay the land rent, which leaves nothing to repay their production costs. I mention this only to show the pressure that will be placed on the agricultural financing institutions.

We find many farmers today in financial trouble caused by increased production costs, the embargoes, and trade sanctions. Couple this with declining land and machinery values, and it is easy to see why we have many farmers with a negative net worth.

Had it not been for the PIK program, many of these farmers would not have been financed in 1983.

The farmers were helped by the PIK program in 1983, but their financial position has not improved because of the drought. The drought disaster relief program announced by the Secretary is not sufficient because very few farmers will qualify under the guidelines. The first criteria to qualify—one must show a 30-percent-overall loss, but his PIK and set-aside are figured at 100 percent of production. Under these guidelines, a farmer can have a 50-percent-production loss and still not qualify because he participated in PIK. If he does show a 30-percent-overall loss, he then becomes eligible for an FmHA loan for 80 percent of his loss. The catch is—he must secure his loan. If he cannot get credit anywhere else, the interest rate will be 5 percent for the first \$100,000 and 8 percent for that above. The farmer with a zero or negative net worth, and there are many, will have to use next year's crop for security. This will reduce next year's operating loan by that amount, so this is self-defeating. Those who do qualify for the cheaper interest rates without affecting next year's operating loan, will have to tell a lie and so will his banker. The farmer who can secure his loan and get credit elsewhere will have to pay 13¾ percent interest, but if he can legitimately secure his loan, he can borrow it at the bank at 12 percent. What good is that?

To further complicate the situation, the USDA has required the local county supervisor of FmHA to send a letter to everyone on the ASCS mailing list and urge them to come in and sign up. This additional workload placed on an agency which is already overworked and understaffed will undoubtedly lead to hard feelings when most who do apply will not qualify. It also could delay next year's operating loans from being processed.

Gentlemen, as you can see, the program is a farce. There are several programs which have been authorized by Congress which could help if they were implemented properly. One is the economic emergency program which the Secretary has withheld for 3 years. I understand now that this program will be reimplemented in December at the request of a Federal judge, but the Department is rewriting the guidelines before they do. The question is, Will they mess those up as they did the drought emergency program?

There is another program which has been authorized by Congress that the Secretary will not implement and that is the drought relief as set out in the 1981 farm bill. Under this program, the Secretary has the authority to make disaster payments through ASCS for crop losses due to the drought, flood, et cetera as he did last year in the High Plains in Texas when they had the hail there.

It also has 75 million bushels of grain that can be given to ranchers to preserve foundation herds. This grain is for a one-time disaster and does not have to be replaced when used, so there would be no additional budget expenses. The only ones who have benefitted from this program have been the four elevators which are storing the grain and they are getting 26.5 cents per bushel or \$19.8 million annually still, will not implement the program.

The Secretary has given two reasons for not implementing this program: First, PIK, second, crop insurance. These are excuses rather than reasons. I do agree that the PIK program was good insurance against the drought. However, I feel that it is unjust to refer to this as "drought aid" because many farmers were unable to participate in PIK, some because the landlord would not agree, some raised crops which were not covered by PIK such as soybeans, and ranchers who raise cattle and sheep. These groups have been devastated by the drought and need some assistance—now.

The Federal crop insurance program is generally known to be a failure as you've already indicated 19 percent or less participation. The main one to benefit from the program has been the insurance agents and companies. The premiums are too high and their coverage too low. Another problem is the cutoff dates on the planning time in the spring oftentimes are too soon, particularly when we have a wet spring like we had this spring here. There are a lot of farmers who want to participate in the crop insurance and because of the wet spring they could not. The idea behind insurance should be to insure against a loss. Therefore, the insurable rate should be at least the cost of production. The maximum insurable rate is below the cost of production.

Most of the better farmers do not want to insure a loss. This has caused others to abuse the program, and this is the reason for its failure.

In light of these facts, we do not think they should be a reason for not implementing the program which has been mandated by Congress.

There is one program which FmHA has that could be very helpful—the 90-10 guaranteed loan program. This program was put in place in the late 1970's and has been used very little. When this program was first put in place, there were a number of banks that used it the first year for a test loan or two and chose not to use the program because of the redtape involved. The main problem came from the lack of a clear definition of "Family Farmer." Anyone, from the county supervisor all the way to Washington could either refuse the loan or make the bank rewrite the entire paperwork. Lack of consistency has kept this program from being used more.

There are several banks, which because of pressure on the agricultural community, that have started using this program in the last 2 years. This spring, the USDA started a program to encourage its usage and the program ran out of funds after being assured that they would not. I know of one bank in Tennessee which got caught with between \$1 and \$2 million of these loans for which they were already obligated. A bank in Texas got caught with over \$13 million the same way. This program is a good program and would be used if the guidelines were consistent and properly funded.

One of the best pieces of legislation to deal with the present day problems of agricultural financing is now pending before the Senate is S. 24, of which Senator Thad Cochran is a cosponsor. The House version is H.R. 1190, sponsored by Congressman Ed Jones and has already passed the House by a vote of 298 to 35. This legislation is held up in committee because of the threat of a Presidential veto. If we could get this passed and signed into law, it could cure most of the problems talked about here today including the EE program and the 90-10 guaranteed loan program.

As a suggestion, because of the animosity and lack of cooperation between USDA and Congress, and I relate to this because I feel there is this, I would like for you, Senator Thad Cochran, if you want to consider getting with Congressman Ed Jones, to consider the feasibility of appointing a task force to study agricultural financing and report back with recommendations for such. This task force should have representatives from agriculture, FmHA, PCA, bankers, OMB, and House and Senate Agriculture Committees. A bipartisan and joint effort by both Houses should be beneficial.

I realize that time is of the essence and this should have been done 6 months ago, but 6 months ago we didn't know that we would have a drought.

In conclusion, I would like to say that there is only one true solution to the problem facing agriculture today and that is profit, but without immediate relief many farmers will not ever have that opportunity. Thank you.

Senator COCHRAN. Thank you, Tommy Willis. I'm particularly impressed with the thought that's gone into your statement and others that have been received this morning by the committee. I really think this is a clear illustration of how important it is for Members of Congress to come back home and make themselves available to get the advice and counsel and instructions, if they may be that, from the people back home who are having to live with the problems that are caused sometimes by Government or at least not solved by Government as they should be. But I really think that if we did more of this we'd have a much more workable and sensitive and responsive Government than we do. You've touched on some problems that I'm really worried about. The fact that we've got a lot of farmers and cattlemen as Johnny Howarth said who are facing foreclosure and they don't know where to turn or what's going to be the outcome of the Government's decision about their individual loan problems.

I have the personal opinion that the Farmers Home Administration ought to do everything it possibly can to avoid foreclosing on any farmer by reamortizing, stretching out loan payments, making deferrals in some cases where it's obvious that the farmer will be able to work his way out of the burden of debt that he faces and get back on his feet, that they ought to take steps to insure that he stays in business. I think that we do need to monitor closely what the administration is doing to tighten up the economic emergency program. Tommy Willis mentioned that a court in Washington has ordered the Department to implement that program. Congress has been authorizing it and funding it and trying to make sure that it is going to be available when needed. And I think we in Congress have an obligation to monitor the program after implementation

and see what guidelines might be put in place to tighten down on participation. Because this program could be a big help this year, to have that money turned loose right now, and I fully support the effort to make that program available as Congress has written it and has authorized it.

You mentioned the PIK program and the counting of PIK acreage and trying to determine the eligibility for disaster loans. This was brought to my attention before we had the hearings in Washington. In questioning Frank Naylor, who is head of all the farm credit programs such as Farmers Home Administration for instance, I told him that I thought the Government's decision on that point was obnoxious and there ought to be a reassessment of that decision. He assured me there would be a reassessment of it. I haven't heard from him about whether he changed his mind, but it was my information that it was his decision that would require the counting of PIK acreage in determining whether you've had a 30-percent-overall loss. In other words, if you had 50 percent of your acreage in the PIK program you'd have to sustain what would amount to a 60-percent loss or thereabouts in order to qualify on the acreage that you planted. Now to me that's just not right, because you are not going to have any farmers eligible. If you do not have any eligible, the program is just not going to be of any benefit whatsoever. The Department's decision actually penalizes farmers who participated in the PIK program and sustained drought loss on planted acres. I'm hoping that that decision can be changed. I don't think a lot of farmers realize that that decision has been made and they won't know it until they go in to get their loans later on. They are not going in right now to get disaster loans, they're not going to do that until later.

Mr. WILLIS. What they're doing now, Senator, is picking up application blanks and taking them back home and filling them out later. Now when they go back to the FmHA office with that application blank they refuse on these various grounds. That's when the fun will fly.

Senator COCHRAN. Well, we're trying to get something done about it now and we're trying to help publicize the information so farmers can express themselves to their Congressman and to others in Government and maybe try to get this decision changed before it's too late. But now is the time to get that decision changed. It may very well be that if we do get this drought legislation on the floor of the Senate we might consider writing it as an amendment some specific language setting out how that PIK acreage ought to be considered in terms of being counted for the basis of eligibility for disaster loans.

This has been very helpful to me to have the benefit of your testimony. This has been a particularly good panel and I thank you for cooperating with the committee and being here. Thank you very much.

Our last panel of witnesses includes Dick Flowers, who is a farmer and president of the Delta Council. He's from Tunica. Billy Ross Brown, who's president of Oxford Production Credit Association from Oxford, Miss., and Jack Hamilton, who's a farmer and businessman from Lake Providence, La. We appreciate very much

your being here this morning and closing out our hearing. We'll call first on Dick Flowers from Tunica County, Miss.

**STATEMENT OF DICK FLOWERS, PRESIDENT, DELTA COUNCIL,
STONEVILLE, MISS.**

Mr. FLOWERS. My name is R. B. Flowers. I am a diversified farmer from Tunica County, Miss., and I am serving this year as president of Delta Council. We deeply appreciate the opportunity to present our views on issues that are of great importance to our area and State.

The area served by Delta Council is largely dependent upon agriculture and accounts for approximately 70 percent of the cotton, 50 percent of the soybeans, and practically all of the rice that is produced in Mississippi. Additionally, catfish farming is a growing industry and we have approximately 65,000 acres in our area devoted to catfish production. Income from agriculture is of vital concern to all segments of our economy.

Mr. Chairman, we wish to commend this committee for efforts that are being made to determine the adverse impact of the drought and weather-related losses sustained in our area. We also appreciate the fact that you will take a close look at the needs of our farmers.

There is no doubt about the fact that severe drought damages were sustained by many farmers throughout Mississippi. While overall growing conditions were very unfavorable in 1983, losses were spotty and it is difficult if not impossible to make positive general statements regarding disaster conditions prevailing over large areas. In fact, conditions vary widely within individual counties and almost on a farm-to-farm basis.

Cattle producers represent the segment of our economy in Mississippi that is hardest hit. The combined impact of the drought and acreage reduction programs have reduced supplies of cattle feed and have caused feed prices to move sharply upward. Many farmers are reducing their herds because of the high costs that will be incurred in carrying cattle through the winter and spring. This will result in lower meat prices to consumers on a temporary basis but higher prices to consumers in the future. It will also result in severe losses to cattle producers.

We cite this problem in the hope that assistance can be provided to help cattlemen obtain the feed that they need for their cattle at prices that they can afford to pay. We believe that such action would be in the national interest.

Insofar as other assistance is concerned, including credit needs, many of our farmers are receiving assistance from the Farmers Home Administration and some of these farmers suffered severe drought losses this year that will prevent them from meeting their financial commitments. We urge that such cases be dealt with on a case-by-case basis and that every consideration possible be given to helping farmers stay in business and solve their problems.

Mr. Chairman, the drought and other adverse growing conditions are not the only cause of the financial problems facing farmers in this country. The prosperity of American agriculture during the past decade has been enhanced greatly by the growth of our export

markets. You will recall that shipments overseas reached a \$43.8 billion record volume in 1981. Export volumes have been declining since that time, however, and the volume of overseas shipments in 1983 is estimated to be \$34 billion. This, of course, has been reflected in lower farm income and surplus supplies of many of our commodities.

In trying to determine why exports have declined, it is our belief that agricultural exports must be considered as an integral and important part of our overall national economy—not as something separate. The same factors are impacting agricultural exports that impact our other U.S. exports—in regard, higher U.S. interest rates, the value of the dollar in comparison to other currencies, weak economies in Third World countries, and what appears to be increasing efforts of many foreign countries to subsidize the sale of their agricultural commodities in world markets.

Maintaining a high volume of agricultural exports is of great importance to our national economy and Congress has provided the USDA with a number of tools that can be used to stimulate our export trade. These tools include CCC credits, Public Law 480, Export-Import Bank loans and the interest buy down provisions authorized in the Budget Reconciliation Act of the 97th Congress. Special recognition should also be given to the effectiveness of the innovative blended credit efforts that were initiated.

The Secretary of Agriculture is to be commended for his efforts to maintain and to increase our agricultural exports. We recommend that an all-out effort be made to maximize the use of the tools provided by Congress to expand our agricultural export markets in the months ahead.

There is one other problem that should be recognized since it relates to commodity price levels and credit needs. This is the fact that the huge increase in the national cropland base that has taken place in this country over the past 10 years will tend to negate efforts to achieve and maintain a manageable level of supplies unless action is taken to produce this excessive production capacity to a more realistic level.

Beginning with the Agricultural Act of 1973 and fueled by the world food crisis of 1973, farmers have been encouraged to increase production to fill demands of rapidly expanding export markets. Harvested cropland has increased from 289 million acres in 1972 to 353 million acres in 1981. Downturns in demand brought about by worldwide recessionary factors and prospects for a slow economic recovery clearly indicate the urgent need for a land retirement program designed to reduce productive capacity, improve future soil fertility and minimize loss of topsoil from wind and water erosion. There will be a need for a larger cropland base in the years ahead and public interests will be served by maintaining these excess acres in a state of readiness.

The cost of an effective land retirement program would be less than the expense of continued overproduction with resulting surplus supplies that depress market prices to lower and lower levels. We respectfully urge that serious consideration be given to the initiation of a program of this kind that would be operated in conjunction with the supply adjustment features of the Agricultural Act of 1981.

Thank you very much for providing us with this opportunity.

Senator COCHRAN. Thank you very much and we appreciate your being here and presenting that statement.

Billy Ross Brown, president of the Oxford Production Credit Association.

STATEMENT OF BILLY ROSS BROWN, CHAIRMAN, PRODUCTION CREDIT ASSOCIATION, OXFORD, MISS.

Mr. BROWN. My name is Billy Ross Brown. I am a landowner from Lafayette County, Miss., and I serve as chairman of the board of Oxford Production Credit Association serving a multicounty area in rural northern Mississippi. Our production credit association is one of several throughout Mississippi which has traditionally provided agricultural credit for crop production. We are extremely grateful for the opportunity to comment before the subcommittee on an issue which has such a significant economic impact on our area.

The area served by our production credit association is dramatically affected by the state of agricultural production, and major crops grown in the area are cotton, soybeans, and livestock.

Prior to my official comments, I would like to express appreciation to this subcommittee and especially to Chairman Cochran from our State of Mississippi for recognizing the need to establish field hearings such as this in order to properly assess the impact of the drought and economic adversity which faces farmers in our area this year.

During 1983, weather conditions were very undesirable insofar as cotton, soybeans, and livestock production; however, it is difficult to provide a general or absolutely accurate assessment of the weather-related losses due to these weather conditions, since the stress of the drought varied in degrees throughout the region. Row crop yields and livestock production in our area alone ranged from total disaster to slightly below average yields on a farm-by-farm basis throughout our area due to the drought.

As a segment of the agricultural economy, cattle production probably suffers the greatest losses due to the extremely high cost of feed for livestock during 1983. In many cases, this situation is causing cattle farmers to sell their livestock rather than carrying the overhead cost of production through the winter months. This example will most probably cause cattle farmers to sell their livestock at unusually depressed prices.

We note this particular dilemma among farmers in our area in order to request that some study be given to providing special assistance to help cattle farmers in the purchase of feed so that they avoid the very costly situation which exists when we depart from orderly marketing. Not only would this assistance be in the best interest of farmers, but it would ultimately translate into lower prices for the consumer if farmers are allowed to continue to feed their herds at reasonable price levels.

In addition to this type of assistance, we also express a concern that there be adequate resources provided for farmers who have sustained losses due to the drought and weather-related problems. Our particular agricultural lending institution has been very suc-

cessful in meeting the agricultural credit needs of a large number of farmers across north Mississippi; however, there are a very large number of farmers who receive credit assistance from the Farmers Home Administration. In fact, almost 60 percent of the farmers in Mississippi seek Farmers Home Administration credit as their only source for financing their crop production. Although our production credit association will continue to serve the credit needs of as many farmers as possible throughout north Mississippi, we share a genuine concern for those farmers who seek credit assistance from the Farmers Home Administration and furthermore, request that this subcommittee urge the Farmers Home Administration to exercise as much flexibility as possible and review each farmer's financial needs on a case-by-case basis. Many farm operators who have registered profits in previous years are experiencing severe financial difficulty due to unusual weather conditions and we hope that the Farmers Home Administration will give every consideration in order to help these farmers utilize their production efficiency to work out these problems.

The administration's payment-in-kind program has had a positive impact on the ability of farmers to service the growing farm debt, but we would like to constantly remind the administration and the Congress that without an effective acreage reduction program agricultural lending institutions such as ours will not be able to provide nor endure the vast credit needs of farmers accompanied by overburdening commodity surpluses which result in depressed market prices. We specifically request that the Secretary of Agriculture use those tools available to them through the authority given him by Congress to maintain a reasonable supply adjustment program while maintaining an aggressive export policy. It is only under these conditions that agricultural credit will meet the needs of our farmers in the future.

Once again, we are grateful to this committee for allowing us to present our statement on behalf of agricultural credit relating to the state of the farm economy in our area.

Thank you, Mr. Chairman.

Senator COCHRAN. Jack Hamilton from Lake Providence, La.

STATEMENT OF JACK S. HAMILTON, LAKE PROVIDENCE, LA.

Mr. HAMILTON. Thank you, Senator, we appreciate also the opportunity to testify here today.

My name is Jack Hamilton. I am a cotton, soybean, wheat, and rice farmer from Lake Providence, La. My farm consists of 2,500 acres, partially owned and partially rented, and this is my 29th crop in this same location. Before starting my farming career in 1955, I received a degree in accounting and worked in this field. In fact, for many years after I started farming, I continued to do accounting and taxwork to supplement my farm income.

The reason I have mentioned my accounting background is to point up the opportunity it has given me to review the financial situation of many farmers in our area. Some of these farmers have come to me for help when they had financial difficulties and I have assisted others with tax and associated problems. In addition, for several years I have served on the board of the Federal Land Bank

Association of Lake Providence and two production lending institutions that rediscount their loans with the Federal Intermediate Credit Bank of New Orleans. My vantage point to view the economic situation of agriculture in our area is a good one and I speak today from that experience.

The situation is particularly bad among farmers who started their operations within the last 10 years. These farmers, most of them young, had higher debts and lower equity than most and the cost price squeeze has hit them very hard. This past year the drought caused low yields in many places and were partially offset by higher commodity prices, excellent fall weather conditions and the PIK program. It is my opinion that many farmers made some headway on their debt carryover this year. I might add that I read this statement to a group of farmers in our office the other day and there was considerable disagreement with this point.

To point up how bad the problem really is, I would like to cite from a recent credit review of a Mississippi Delta Production Credit Association. The Federal intermediate credit bank rates all PCA loans in each association each year and all are either put in acceptable, problem, vulnerable, or loss those being one, two, three, and four. In 1979, this PCA had 94.2 percent of its loans classed acceptable. This year, 4 years later, exactly 36.6 percent of its loans made this top category. This is in spite of a large volume drop this PCA had which indicates heavy culling of marginal loans.

There are 25 PCA's in the New Orleans district consisting of Alabama, Mississippi, and Louisiana. So far this year, credit reviews have been done on 19 of these PCA's and the acceptable loans dropped from 72.3 percent in 1982 to 58.4 percent in 1983. This is very dramatic proof of the dire economic condition of agriculture in the South.

As for the solution to the problem, first I would like to emphatically state something you have heard many times before and that is you cannot borrow yourself out of debt. This does not mean that emergency lending will not be needed or beneficial. It simply means that such lending is not a permanent lasting answer for the problem faced by agriculture today. Obviously, the real answer is a cost sale price margin adequate to service debt and provide for the capital investment necessary to keep farming operations viable. It is doubtful that these margins will ever be forthcoming if we continue our cheap food and fiber policy on a national scale.

My personal view of the best way to obtain adequate commodity prices for farmers is through the marketplace. This might mean domestic or export sales help in any form of inducements including credits or even outright subsidies to stimulate sales.

Another necessary tool to a healthy farm economy is adequate credit, both short and long term. Creation of the Farm Credit System about 60 years ago may be the single finest thing our Government has ever done. With Federal land bank to provide long-term financing for purchase and improvement of farmland, Federal intermediate credit bank to provide production money that at times in history has not been available, and the bank for cooperatives to finance agribusiness cooperatives, we have a giant system that has made American agriculture the envy of the world. No place on Earth can even begin to match the productivity of Ameri-

can agriculture and the Farm Credit System deserves a great deal of credit for this accomplishment. I would certainly urge Congress to never tamper with this System which is totally financed with private funds. Agency status for this institution and the few tax breaks it enjoys are a small price to pay for the gigantic contribution this System has made to our Nation.

No discussion of farm credit is complete without mentioning Farmers Home Administration. The first 4 years I farmed, FmHA provided my financing. It is doubtful that I could have obtained credit elsewhere since I had no equity. Later, I served on the county FmHA loan committee for 3 years. I cite this background to show that any prejudice I have about FmHA is positive, for without them I would probably not be here before you today.

However that may be, I totally disagree with what FmHA is doing today. Reckless is the only way to describe their lending techniques and nonexistent is the only way to describe their collection policy. There is simply no way that politics and money lending will ever be compatible. I served several years on the Louisiana State Market Commission, an agency that made agribusiness loans of State money and no matter how hard our commission tried, we simply could not keep politics out of the lending process. Obviously, on a national scale this problem would be even more unmanageable.

There is absolutely no need to make a loan to an individual when his debt load has become so large that positive cash flow is an impossibility. In fact, making such a loan tends to raise rents and generally disrupt an agricultural community. Political pressure is constantly being used to encourage FmHA to continue throwing away taxpayer money in this fashion.

There are many farmers in this Nation who have given up farming and owe large sums to FmHA secured by mortgages on land and equipment. They are making no effort to repay these loans and FmHA is making no effort to collect. In fact, I know of foreclosures in our area where FmHA held second positions with considerable equity and made no move to cash in on this equity. I think the general public would be shocked to find out what is happening to the money being held out of their paychecks each week.

If the Government wants to help bona fide farmers in this difficult time, I would urge them to give guarantees for say 80 or 90 percent to the private lender so long as none of that money is used to repay old loans to that private lender. This would remove much of the politics from the process and allow the strength of private enterprise to shine through. The portion the private lender would carry of these loans would, I think, insure adequate caution.

There is one more point that I think should be made. There are two parts to being a successful farmer, actually producing in the field and proper management of money and resources. Many farmers who do an outstanding job of producing do a lousy job of managing their money. I have been appalled at the lack of records some very large farmers I have attempted to help provided. Although this does not come under a Government responsibility I strongly feel that many farmers would be greatly helped if their lenders would require good records and periodic accurate financial reports.

Thank you for this opportunity to express my views.

Senator COCHRAN. Thank you very much for expressing that point of view and being here to join this panel that's helping us try to understand and assess the impact of the drought on Midsouth agriculture.

I wonder what the reaction of this panel would be to the suggestion that was made earlier by Tommy Willis who is president of the American Agriculture Association Movement that there be a task force put in place to study the problem generally of agriculture credit and financing. Is that needed? Would we benefit from bringing together Members of Congress, and the administration, and the private sector to talk about where we are and how we're going to finance agriculture next year and the next decade?

Dick, what's your reaction of that?

Mr. FLOWERS. I think it would be a good consideration.

Senator COCHRAN. Billy Ross?

Mr. BROWN. I feel the same way.

Senator COCHRAN. Jack, what's your idea about that?

Mr. HAMILTON. I served on one task force where we studied cotton marketing. It's the biggest farce I've ever been involved in in my life. And if it was the same way I think you'd be wasting taxpayers' money.

Now, to be honest with you, we went to Washington four or five times and sat around and met and wrote a great big report and I'm sure no one's ever read it. So, if it's that kind of a task force I don't think so. A proper one, yes, I think would be helpful. I don't know how you would organize one that would do that.

Senator COCHRAN. Well, it's going to be important, I think, for us to make some decisions about whether or not the Farmers Home Administration is expanded or modified in any great degree. It was pointed out by one witness earlier today that there is pressure by the administration to keep bottled up in the Congress any farm credit legislation. We've reported out a bill in the Senate Agriculture Committee that has some changes in the Farmers Home program and policies, and it's true the administration has threatened to veto it, if passed. So, I don't know. There is a sharp difference of opinion right now about whether the program needs to be liberalized or made more conservative. And we've had both of those viewpoints expressed today before our committee. I don't know that I'm willing to say what the right answer is right now, but I do think that any of these programs has to have running through it the thread of compassion and sensitivity to human problems that are created by the drought and by adverse economic conditions. I think if we take too callous an attitude, if our Government is too callous about the impact of such conditions, that we're going to see a massive disruption that will affect the social fabric of our society and the economic well-being of a lot of citizens. If that can be avoided, I think it should be avoided.

The production credit association and traditional lending institutions would have, I think, an impossible job meeting credit needs were it not for Farmers Home programs. Is that a fair statement?

The WITNESSES. Correct.

Senator COCHRAN. So, it's not your suggestion that we ought to do away with the Farmers Home Administration, but we ought to

tighten up its practices and make it more businesslike and less political.

Mr. HAMILTON. It was running pretty good until the politicians got involved in it. I think in the old days the Farmers Home was much more responsible. I'm not saying that they shouldn't be compassionate. And I think they should be compassionate in going the last mile. I'm talking about going beyond the last mile. And in some incidents that's what's happened. There are great abuses in this program right now and incidently I understand there's going to be a major story by the newspapers on this in November that's really going to blow the lid off.

Senator COCHRAN. Well, I heard that there are some reporters that have been working very hard in Washington and all around to try to develop information and facts about the program. I don't know when the publication date is. You may know more about that than I do.

Mr. HAMILTON. I've heard late this month. The only thing is the abuses are going to hurt the bona fide farmers. That's my only point. I'm not opposed to FmHA personally.

Senator COCHRAN. I think this panel has made a very fine contribution to our hearing. Again, let me express my appreciation for your being here and helping us in the way that you have. Thank you very much.

Before the hearing is adjourned I want to give anybody who is here and who is interested an opportunity to express themselves to the committee. We do have a little bit of extra time. I have a plane I have to catch to Washington, but if anybody would like to make a short statement to the committee we'll be happy to receive that. If there are others who would like to submit a statement in writing to the committee it will be made a part of the record and have the full force and effect of a oral statement. The statement can be done in any form even in the form of a letter. It can be sent to me, Senator Thad Cochran, U.S. Senate, Washington, D.C. I'll get it and we'll see that it's included in the transcript of this hearing. I think this has been a very important thing to do and I'm confident that the information that we've gathered here is going to be a benefit to our Senate Agriculture Committee.

We will be considering additional agricultural legislation during the balance of this year even though there is a full measure of other legislative activity scheduled for the Senate until about the middle of November when Congress hopes to adjourn for the year. But if there is a need for emergency action by the Congress because of the drought, I think we need to know it and we need to know it from the people who are out there trying to deal with the problem in a practical day-to-day way. These drought hearings I have conducted will help us understand what the need is and give direction to any legislative action that may be taken.

For all of your help I sincerely thank you and congratulate you for the thought and effort that has been put into the statements that we received. Thank you very much for being here.

The hearing is adjourned.

[Whereupon, the subcommittee adjourned, subject to call of the Chair.]

APPENDIX

WASHINGTON HEARING

STATEMENT OF HON. DAVID H. PRYOR, A U.S. SENATOR FROM ARKANSAS

Mr. Chairman, I'm pleased you've called this hearing today to discuss the most recent tragedy our farmers are having to deal with. I sincerely hope that we can do something to help them because this is the fourth consecutive year things have gone very bad for all of agriculture. A couple of years ago, I didn't think things could get much worse, but they've gotten much worse in Arkansas for all farmers, regardless of whether or not they are grain farmers, poultry producers, dairymen, or ranchers. As long as the agricultural sector of our economy is on the edge of collapse, we're not going to have any sustained economic recovery in this country.

Mr. Chairman, we've had a couple of meetings with the Secretary and other officials of the Department of Agriculture. I hope that they will soon agree with many of us that we need to do something to help our farmers. There have been several bills introduced, S. 24 and more recently S. 1949, but for a variety of reasons, we've never acted on them. Although these bills would help a great deal, I have some additional concerns about our agricultural situation and I'll have some questions on these matters later in the hearing.

Mr. Chairman, I believe that time is running out and if we're going to do something it must be in the very near future. I hope this meeting today is fruitful. I certainly commend you for your efforts and I look forward to the testimony and remarks of the witnesses who are going to appear before us.

STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Mr. Chairman, members of the Committee, I appreciate this opportunity to testify today regarding the drought that has hit the agriculture sector in many parts of the country this summer. I am pleased that the committee is directing its attention on this important matter and I urge serious consideration of legislation by the Committee with the aim of Congressional passage before we adjourn for the year.

I would also urge attention to legislation that Senator Jepsen and I introduced yesterday, a bill also supported by other members of the Iowa Congressional delegation. The Drought Assistance Act of 1983 is legislation aimed at helping our family farmers with limited expense to the government. It requires the Farmers Home Administration to provide emergency loans to drought victims who are unable to obtain credit elsewhere. These loans would include graduated interest rates at 3 percent for the first \$50,000, 5 percent for the second \$50,000, and 8 percent for any loan over \$100,000. This bill also calls for the implementation of the Emergency Livestock Feeding Program.

As did many of my colleagues, I spent several days during the weeks since August touring the drought areas in the State of Iowa. There is no question that this is the worst drought that I can remember. Thus far, the Governor of Iowa has requested disaster designation for well over 30 counties in Iowa. Most have been approved by Secretary Block, others are still under consideration.

For the record, I would like to submit a copy and an economic impact analysis prepared for Davis County, Iowa. This statement, was sent to me by Leslie Miller, Ag Loan Officer for the Davis County Savings Bank. This analysis provides a good representation of the impact of the drought, not only on farmers, but also on other businesses and communities as a whole. I would appreciate committee's serious study of this report along with the recommendations offered by Leslie Miller.

I would also like to submit for the record a copy of a letter that I sent to Paul Volcker, Chairman of the Federal Reserve. I sent a similar letter to the Comptroller of the Currency and to the Chairman of the Federal Deposit Insurance Corporation. My message to these gentlemen is simple—if we are going to pull through this crisis, we must pull together from all fronts. The regulators of our financial institutions have a role to play by assuring that their bank examiners have a working grasp of agriculture and have the flexibility to work with our bankers in assisting their borrowers through this drought. Perhaps the members of this committee would like to join in urging this cooperation.

Finally, I would like to urge my colleagues to continue to work together, among themselves and with the Administration, in developing the most effective, appropriate forms of relief. I have joined several of my Iowa colleagues in offering the Drought Assistance Act of 1983. There may be other appropriate means of relief and I believe the committee should leave no stone unturned. Frankly, I see little difference between a drought disaster and a hurricane or flood disaster. We must seek that level of fairness that treats all these victims equally.

What we must keep well in mind, however, is the fact that our agriculture sector is facing a very real, immediate crisis. We may not agree with each other on the most appropriate forms of relief. This is to be expected. This is not a drought that affects everyone the same. But the fact remains, that for a large number, whatever relief is provided may mean the difference between survival or demise.

The seriousness of this crisis makes imperative that we work together in a bipartisan effort to provide necessary relief. It is sometimes too easy to turn problems facing our Nation into a "political football". Be assured, however, if this tragic mistake is made, it will be our constituents who are the great losers. The magnitude of this problem is too great. We must work together and work quickly to decide what additional relief should be made available. Once this decision is made, we must move quickly to pass legislation before we adjourn this year.

Thank you for this opportunity. I look forward to the committee's cooperation in helping resolve this crisis. You can be certain that I will cooperate in any way I can. Thank you.

U.S. SENATE,
Washington, D.C., October 1, 1983.

Hon. PAUL A. VOLCKER,
Chairman, Board of Governors,
Federal Reserve System, Washington, D.C.

DEAR MR. CHAIRMAN: This past summer's drought has strained rural America's economic fiber to the limits. The implications are serious for States such as Iowa that depend heavily upon agriculture and agriculture-related businesses. Farmers, small businesses, and entire communities are balancing precariously on the edge of disaster. It is abundantly clear by those from mainstreet to the White House and Congress that we must pull together from all sectors to weather this trouble.

To help assure success, it is imperative that, as regulator of our financial institutions, you assist in our efforts. There are two steps that you can take to help alleviate our dilemma:

- (1) Shift drought-impacted accounts to examiners who have a thorough understanding of farming and the agriculture-related businesses, and
- (2) Direct your bank examiners to work closely with bankers who are attempting to help borrowers through this drought.

I recognize and applaud your institution's efforts to maintain the sound condition of the banking industry and to preserve public confidence in our banking system. Your mission, however, goes far beyond this role, and requires keen sensitivity to the needs of individual borrowers and the close relationship between the financial well-being of these borrowers and that of the community as a whole.

In short, bankers understand the need and are willing to help their customers through this drought. Their ability to assist, however, is closely tied to the flexibility allowed by your examiners.

If they are denied this essential latitude due to rigid policy and agriculturally ignorant examiners, I fear that much will be lost from the efforts by individuals, states, Congress, and the Administration to mitigate the impact of the drought. If the hands of our bankers are tied, farmers and small businesses that otherwise could survive may be lost. This will have an immediate, direct, and devastating effect on rural America.

Thank you for your serious consideration.
Sincerely,

CHARLES E. GRASSLEY,
U.S. Senator.

DAVIS COUNTY SAVINGS BANK,
Bloomfield, Iowa, August 30, 1983.

Senator CHUCK GRASSLEY,
Federal Building,
Des Moines, Iowa.

DEAR SENATOR GRASSLEY: For your study, I have enclosed a copy of the economic impact statement prepared for Davis County, Iowa. I would appreciate your forwarding these figures, as well as my thoughts expressed in this letter, to Secretary Block's office.

The figures in the statement are compiled through the use of a computer program put together by Iowa State University Extension Personnel. This program is designed to calculate the effects on the county net farm revenue given certain variables (as outlined in the report).

In studying these figures you'll become aware of the drastic effect of the drought on the farmers and residents of Davis County. This effect is compounded by the net losses, after all expenses, on corn and bean acres in Davis County in 1981 and 1982 (due to the extremely low prices and below average yields). Thus, it becomes readily apparent why Davis County farmers are urging you to request the following:

(1) That Secretary Block act immediately to approve our disaster designation (thus opening up the door for FmHA emergency loan programs and SBA economic injury disaster loans).

(2) That Secretary Block provide for revision of guidelines and additional funding and staffing of FmHA programs (such as the limited-resource farmer program and the emergency loan program). This would allow the FmHA to more effectively help us in our "time of need."

(3) That Secretary Block request funding for the ASCS Emergency Feed Program. Implementation of this program, under existing or somewhat revised guidelines, would cut down on breeding herd liquidation—and, therefore, cut down on future income losses to our county. An added benefit of this program would be its effect in helping keep consumer meat prices down in the future. (This is suggested because there was no "PIK Program" available for the livestock producers of this country who have, by virtue of seeding down farmland, done much for soil conservation. There was also no FCIC program available for hay and pasture production. Thus, since ASCS has the ability to provide for disaster payments on land that is not covered by Federal Crop Insurance, I would think the funding of this program would be within the "realm of a reasonable request").

(4) That Secretary Block seriously consider using his discretionary authority to implement the ASCS disaster payment program in those counties most seriously affected by the drought (i.e. those counties with less than 30 percent of their normal corn yields). This might minimize the funding necessary, while helping those counties most in need.

(5) That Secretary Block explore innovative ways to help farmers survive the drought of 1983, such as having FmHA charge a lower rate of interest on emergency loans involving farms with 60, 70 or 80 percent production loss, or having a different 1984 farm program for those farms with a 60, 70 or 80 percent production loss.

(6) Lastly, that Secretary Block explore ways to improve Federal Crop Insurance. (This will not be an easy task, however, it is one that must be accomplished. The present insurance system is not adequate and thus should be improved or abandoned. If the program is improved, there will be a great need to educate the people on the changes in order to overcome the "negative history" of FCIC).

I will be happy to answer any questions you might have on the above, or on any figures used in the preparation of the statement. Your fullest efforts on our behalf will be greatly appreciated.

Sincerely,

LESLIE S. MILLER,
Agricultural Loan Officer.

DAVIS COUNTY, IOWA, DROUGHT DISASTER, 1983

ECONOMIC IMPACT STATEMENT

Davis County is located in the southern tier of counties in the southeast quadrant of the state. According to 1980 census figures, approximately 9100 people reside in the county.

Although the county has an agricultural base, there are 2,620 of the people that are self-employed or employed as a non-agricultural wage or salary worker. These jobs are in business sectors such as agricultural services, construction, manufacturing, transportation, public utilities, wholesale or retail sales, insurance, real estate, finance, service businesses and government jobs.

The agricultural sector is made up of 1060 farmers farming the 311,300 acres of agricultural land in Davis County. The average farm size in 1982 was 294 acres with land prices averaging \$1035.00 per acre. This value is somewhat less than the \$1202.00 per acre value in 1981 when 1100 farmers farmed an average of 283 acres each.

Although the terrain and soil types in Davis County may not be as conducive to high yields and large row crop operations, the climatic conditions compensate somewhat. The average mean temperature is 51.2 degrees and average rainfall is from 34-35". When 12-19" of this annual rainfall are recorded in the months of June, July and August, record yields have been recorded in the county. This is evidenced by the rainfall patterns of 1978-1981 when 100-120 bu. Corn yields and 30-40 bu. bean yields were recorded. This is quite a contrast when compared with the 12.74" of rain recorded through Aug. 20th, 1983 especially when only 1.6" of this rain fell in June, July and the first 20 days of August. This is also substantially less than in 1977 when 5.55" of rain were recorded in June and July and 8.47" were recorded for August.

In the last five years, there has been an average of 60,400 acres of corn, 48,700 acres of beans, 8800 acres of oats and 2400 acres of wheat planted in the county. The five year average yields recorded on these acres (as documented by the Iowa Crop and Livestock Reporting Service) are 105 bu. corn, 32 bu. beans, 40 bu. oats and 35.5 bu. wheat. The Davis County Emergency Board estimates that in the 1983 drought, corn yields may be reduced to 25 bu./acre, and bean yields may be only 20 bu./acre. The board felt that wheat and oat yields would not be substantially reduced.

The balance of agricultural land is involved in pasture and hay production. The last two years have recorded an average of 43,300 acres of hay ground producing approximately 2.63 tons of hay per acre. The reduction of hay and pasture production is more difficult to determine; however, both the County Emergency Board and the Area Extension Crop Specialist estimate that production has been cut approximately 50 percent due to dry weather and a late spring. Thus, in farming projections we estimated hay production was cut to 1.3 tons per acre. However, since P.I.K. acres were made available for grazing, we only cut the animal unit/month carrying capacity (a measure of productivity) by approximately 40 percent.

Since Davis County has large numbers of livestock, it is necessary to take the effect of the drought on the livestock industry into account when projecting the total loss to the county.

In the 1977 drought, beef cow numbers were cut by 2,200 head and sow numbers were cut by 400. (There were no figures available for Davis County sheep numbers in 1977). Thus, due to the extra severity of the 1983 drought, and the higher feed prices, it is not "out of line" to project a drop of 3,000 beef cows (from the 24,500 cows in the county on Jan. 1, 1983), 600 sows (from the 6,200 sows in the county in 1982) and 1,000 head of sheep (from 22,000 in the county on Jan. 1, 1983). Such liquidations may have an immediate negative effect on prices. Thus, all these projections assume the prices remain stable and even show extra income from the culled livestock. However, these projections also take into account the lowered production until herds can be rebuilt (one year on sows to 5 years on cows). The rebuilding period takes into effect the repayment period necessary to liquidate additional debt required in rebuilding the herd, or the lack of money available to repay existing debt while the herd is being rebuilt.

All of the above considerations are taken into account in the following income loss projections. There are three levels of comparison in these projections. Level I assumes "loan rate" prices on normal yields and drought yields. Level II compares normal income and drought income under high price levels—the prices Davis County farmers might have received if the drought was "everywhere but Davis County". Level III compares normal income prices that might exist if there were no dry weather this year as compared to the average price a Davis County farmer

might receive under the current price and yield projections. All levels assume the following:

Normal conditions	Drought conditions
36,000 acres corn.....	36,000 acres corn.
40,000 acres beans.....	40,000 acres beans.
105 bushels per acre corn yield.....	25 bushels per acre corn yield.
32 bushels per acre bean yield.....	20 bushels per acre bean yield.
2.6 ton per acre hay yield.....	1.3 ton per acre hay yield.
normal pasture.....	60 percent of normal pasture.
43,300 acres hay.....	43,300 acres hay.
normal acres wheat and oats.....	normal acres wheat and oats.
normal yields wheat and oats.....	normal yields wheat and oats.
24,500 cows.....	21,500 cows.
6,200 sows.....	5,600 sows.
22,000 sheep.....	21,000 sheep.
1,424,231 bushels PIK corn.....	1,424,231 bushels PIK corn.

Hog price, \$46/cwt, \$60/cwt feeder calf price (as product of beef cows), \$60/cwt fat cattle price (as product of "feeder calf purchases"), \$12/cwt milk price, \$50/ton hay price, \$3.11/bu. wheat price, \$1.70/bu. oats price, 13 percent interest rate on intermediate term debt and 14 percent interest rate on operating.

normal

AGGREGATE INCOME: OPERATORS & LANDLORDS

LEVEL I

Crop	Unit	Qty	\$/unit	Line Totals	Sub-Totals
Corn	Bu	2477154	2.65	6564457	
Soybeans	Bu	1264000	5.30	6752000	
Other Crop Sales				3494816	17011273 *
Livestock	Unit	Qty	\$/unit	Total	
Hogs	CWT	180048	46.00	8557860	
Beef Cows	CWT	73500	60.00	4664016	
Dairy	CWT	304500	12.00	3838788	
Fdr Ctlle	CWT	32550	60.00	1953000	
Other Livestock Sales				1129736	20143400
Other					
Government Payments					
Deficiency				605938	
Diversion				886074	
PIK Corn(Bu)		1424231	2.65	3774212	
Corn(FDR)		932800	0.00	0	
Custom Hire				900900	
Off Farm Sources				3426860	9593984 *
				GROSS REVENUE	46748657
Cash Expenditures					
Crop & Livestock Feed Production				15046975	
Purchased Feed & Additives				4188507	
Property Taxes & Insurance				3039289	
Interest On Operating Capital				1345482	
Purchased Livestock				1279300	
Other Livestock				538425	
Debt Service Eqp/Fac Loans				3393892	28631869
				NET REVENUE AVAILABLE FOR FAMILY LIVING & LONG-TERM DEBT	18116788 **

drought

AGGREGATE INCOME: OPERATORS & LANDLORDS

Crop	Unit	Qty	\$/unit	Line Totals	Sub-Totals
Corn	Bu	1040854	2.65	2758264	
Soybeans	Bu	784000	5.30	4312000	
Other Crop Sales				2074034	9144298 *
Livestock	Unit	Qty	\$/unit	Total	
Hogs	CWT	162624	46.00	7798080	
Beef Cows	CWT	64500	60.00	5532912	
Dairy	CWT	304500	12.00	3838788	
Fdr Ctlle	CWT	32550	56.00	1822800	
Other Livestock Sales				1102248	20094828
Other					
Government Payments					
Deficiency				605938	
Diversion				886074	
PIK Corn(Bu)		1424231	2.65	3774212	
Corn(FDR)		932800	0.00	0	
Custom Hire				900900	
Off Farm Sources				3426860	9593984 *
				GROSS REVENUE	38833110
Cash Expenditures					
Crop & Livestock Feed Production				15046975	
Purchased Feed & Additives				5323653	
Property Taxes & Insurance				3027364	
Interest On Operating Capital				1382519	
Purchased Livestock				1191400	
Other Livestock				311875	
Debt Service Eqp/Fac Loans				3352287	29636075
				NET REVENUE AVAILABLE FOR FAMILY LIVING & LONG-TERM DEBT	9197035 **

* figures to use in determining qualifications for disaster status

** figures to use in determining net income lost to farmers

BEST COPY AVAILABLE

AGGREGATE INCOME: OPERATORS & LANDLORDS

LEVEL II

normal

Crop	Unit	Qty	\$/unit	Line Totals	Sub-Totals
Corn	Bu	2477154	3.20	7926891	
Soybeans	Bu	1264000	7.40	9353600	
Other Crop Sales				3494816	20775307 *
Livestock	Unit	Qty	\$/unit	Total	
Hogs	CWT	180048	46.00	8257860	
Beef Cows	CWT	73500	60.00	4410000	
Dairy	CWT	304500	12.00	3654000	
Fdr Ctle	CWT	32550	60.00	1953000	
Other Livestock Sales				1129736	20143400
Other					
Government Payments				0	
Deficiency				886074	
PIK Corn(Bu)	1424231	3.20	4557539		
Corn(FDR)	932800	0.15	139920		
Custom Hire			900900		
Off Farm Sources			3426860	9911293 #	
Cash Expenditures					GROSS REVENUE-----> 50830000
Crop & Livestock Feed Production			15046975		
Purchased Feed & Additives			4188507		
Property Taxes & Insurance			3039289		
Interest On Operating Capital			1345482		
Purchased Livestock			1279300		
Other Livestock			338425		
Debt Service Eqp/Fac Loans			3393892	28631869	
NET REVENUE AVAILABLE FOR FAMILY LIVING & LONG-TERM DEBT-----> 22198131 **					

drought

Crop	Unit	Qty	\$/unit	Line Totals	Sub-Totals
Corn	Bu	1040854	3.20	3330734	
Soybeans	Bu	784000	7.40	580160	
Other Crop Sales				2641484	11773818 *
Livestock	Unit	Qty	\$/unit	Total	
Hogs	CWT	162624	46.00	7498080	
Beef Cows	CWT	64500	60.00	3870000	
Dairy	CWT	304500	12.00	3654000	
Fdr Ctle	CWT	32550	56.00	1822800	
Other Livestock Sales				1102248	20094828
Other					
Government Payments				0	
Deficiency				886074	
PIK Corn(Bu)	1424231	3.20	4557539		
Corn(FDR)	932800	0.15	139920		
Custom Hire			900900		
Off Farm Sources			3426860	9911293 #	
Cash Expenditures					GROSS REVENUE-----> 41779939
Crop & Livestock Feed Production			15046975		
Purchased Feed & Additives			2607330		
Property Taxes & Insurance			3027364		
Interest On Operating Capital			1392449		
Purchased Livestock			1191400		
Other Livestock			311875		
Debt Service Eqp/Fac Loans			3352287	29929730	
NET REVENUE AVAILABLE FOR FAMILY LIVING & LONG-TERM DEBT-----> 11850209 **					

* figures to use in determining qualifications for disaster status

** figures to use in determining net income lost to farmers

T

BEST COPY AVAILABLE

LEVEL III

normal

AGGREGATE INCOME: OPERATORS & LANDLORDS

Crop	Unit	Qty	\$/unit	Line Totals	Sub-Totals
Corn	Bu	2477154	2.80	6936030	
Soybeans	Bu	1264000	6.80	8595200	
Other Crop Sales				3494816	19026046 *
Livestock	Unit	Qty	\$/unit	Total	
Hogs	CWT	180048	46.00	8257860	
Beef Cows	CWT	73500	60.00	4664010	
Dairy	CWT	304500	12.00	3838788	
Fdr Ctlle	CWT	32550	60.00	1953000	
Other Livestock Sales				1129736	20143400
Other					
Government Payments					
Deficiency				605938	
Diversion				886074	
PIK Corn(Bu)	1424231	2.80	3987847		
Corn(FDR)	932800	0.00	0		
Custom Hire				900900	
Off Farm Sources				3426860	9807619 *
				GROSS REVENUE----->	48977065
Cash Expenditures					
Crop & Livestock Feed Production				15046975	
Purchased Feed & Additives				4188507	
Property Taxes & Insurance				3039289	
Interest On Operating Capital				1345482	
Purchased Livestock				1279500	
Other Livestock				338425	
Debt Service Exp/Fac Loans				3393892	28631869
				NET REVENUE AVAILABLE FOR FAMILY LIVING & LONG-TERM DEBT----->	20345196 **

drought

AGGREGATE INCOME: OPERATORS & LANDLORDS

Crop	Unit	Qty	\$/unit	Line Totals	Sub-Totals
Corn	Bu	1040854	3.20	3330734	
Soybeans	Bu	784000	7.80	580160	
Other Crop Sales				2641484	11773818 *
Livestock	Unit	Qty	\$/unit	Total	
Hogs	CWT	162624	46.00	7798080	
Beef Cows	CWT	64500	60.00	5532912	
Dairy	CWT	304500	12.00	3838788	
Fdr Ctlle	CWT	32550	56.00	1822800	
Other Livestock Sales				1102248	20094828
Other					
Government Payments					
Deficiency				0	
Diversion				886074	
PIK Corn(Bu)	1424231	3.20	4557539		
Corn(FDR)	932800	0.15	139920		
Custom Hire				900900	
Off Farm Sources				3426860	9911293 *
				GROSS REVENUE----->	41779939
Cash Expenditures					
Crop & Livestock Feed Production				15046975	
Purchased Feed & Additives				5607380	
Property Taxes & Insurance				3027364	
Interest On Operating Capital				1392449	
Purchased Livestock				1191400	
Other Livestock				311875	
Debt Service Exp/Fac Loans				3352287	24929730
				NET REVENUE AVAILABLE FOR FAMILY LIVING & LONG-TERM DEBT----->	11850209 **

* figures to use in determining qualifications for disaster status

** figures to use in determining net income lost to farmers

BEST COPY AVAILABLE

Livestock income for a normal year

Livestock	Unit	Qty	\$/unit	Total
Hogs	CWT	180048	46.00	8337840
Beef Cows	CWT	73500	60.00	4410000
Dairy	CWT	304500	12.00	3654000
Feeder Cattle	CWT	22550	60.00	1353000
Other Livestock Sales				1129736
				20145400

Livestock income for the drought year (includes cull cow, cull sow and cull ewe income)

Livestock	Unit	Qty	\$/unit	Total
Hogs	CWT	162624	46.00	7480704
Beef Cows	CWT	64500	60.00	3870000
Dairy	CWT	304500	12.00	3654000
Feeder Cattle	CWT	22550	56.00	1262800
Other Livestock Sales				1102248
				20094828

Livestock income for year following drought (shows result of smaller cow, sow, and ewe herds)

Livestock	Unit	Qty	\$/unit	Total
Hogs	CWT	162624	46.00	7480704
Beef Cows	CWT	64500	60.00	3870000
Dairy	CWT	304500	12.00	3654000
Feeder Cattle	CWT	22550	60.00	1353000
Other Livestock Sales				1102248
				18716628

Shown above is the contrast between livestock income in a normal year versus the income in a drought year versus the income one year after a drought year. As you can see, the drought year income is "inflated" by the addition of cull cow, cull sow, and cull ewe sales. The first year after the drought shows income resulting from fewer breeding livestock numbers. Then, for years two through five, one must consider the decrease in feeder cattle (as a product of beef cows) sales alone, since it will take much longer to rebuild the cow herds (in relation to the sow and ewe herds).

BEST COPY AVAILABLE

In order to arrive at the total income loss to the farm sector it is necessary to subtract the net revenue available under drought from the net revenue available under normal conditions. Then one must add in an additional \$3,711,188 to compensate for the loss in livestock numbers. This figure is arrived at by adding \$1,426,772 in reduced livestock income for the first year after the drought (due to fewer cull cow, cull sow, feeder livestock and fat livestock sales) to \$2,284,416 in reduced livestock income in the second through fifth year following the drought (due to lower cattle income while herds are being rebuilt).

Thus, under Level I we have \$12,630,941 loss to the farm sector. Under Level II we have a \$14,059,110 loss to the farm sector. Under Level III we have a \$12,206,175 loss to the farm sector. The following chart will illustrate how that loss relates to the other sectors in Davis County. This input-output model is derived from a computer program out of Iowa State University designed to weigh the effects of reduced farm income over all sectors in the economy. Adjustments have been made to the model for Southeast Iowa. The losses are displayed on an annualized basis, although it may take more than one year for these losses to occur (approximately 75 percent of the effects will show up in one year, and 95 percent will appear in two to three years). The model shows the direct and indirect loss to each sector. The time span on the model is the time it takes these effects to work through the system.

Thus, on the \$14,059,110 loss in the farm sector we have:

[Dollar amounts in millions]			
Sector	Employment	Output (reduction)	Income (reduction)
Agriculture	¹ 18.67	\$15.2665	\$3.3477
Agriculture services.....	5.62	.0970	.0422
Mining.....	2.24	.0685	.0295
Construction.....	5.77	.1800	.0787
Manufacturing.....	7.72	.7480	.0928
Transportation and public utility.....	19.12	.6608	.2334
Wholesale.....	21.64	.5132	.2587
Retail.....	66.23	.6594	.4035
Insurance real estate finance.....	39.09	1.8840	.3290
Services.....	48.79	.6158	.2981
Government.....	1.12	.0197	.0140
Total.....	236.01	20.7129	5.1276
On the \$12,630,941.00 loss in the farm sector we have:			
Total.....	211.95	18.6337	4.5442
On the \$12,206,175.00 loss in the farm sector we have:			
Total.....	204.83	18.0071	4.3914

¹ Jobs lost.

Thus, the loss in all sectors of Davis County range from \$18,007,100.00 to \$20,712,900.00 according to the above model. Another program developed by Iowa University will put the dollar loss in the sale of sales taxable items plus foods and medicines at \$2.2 to \$2.7 million.

It is easily concluded from the projections in this statement, that the losses demonstrated will be a serious blow to Davis County. The need for federal intervention is readily apparent, and becomes even more obvious when the drought of 1983 is compared to the drought of 1977 (the last time federal aid was deemed necessary). For example:

	1977	1983
Rainfall through Aug. 15 (inches)	20.16	12.74
Corn yields (bushels per acre)	49.9	¹ 25.0
Bean yields (bushels per acre)	38.8	¹ 20.0
Total production cost per acre—corn.....	\$177.77	\$250.85
Total production cost per acre—beans.....	\$126.76	\$196.10
Average interest rate charged (county) (percent)	9.00	14.00
Previous year's value of net income on corn and bean acres.....	\$4,843,559.00	—\$4,750,236.00

	1977	1983
Programs available:		
ASCS emergency feed		(²)
ASCS disaster payments		(²)
FmHA emergency loans		(²)
FmHA limited resource		(²)
SBA disaster loans		(³)

¹ Estimate.

² These programs are still available, but are in need of funding to handle the problems in our county.

³ This program is no longer available and there is need for some type of program to fill the "gap".

Thus, we ask that the FmHA and ASCS programs currently in existence receive the necessary funding to aid Davis County in this disaster. We would also ask that new legislation be adopted so that private lenders may have available to qualified borrowers a guaranteed loan program, with a subsidized, low interest rate (similar to the student loan program). This would allow private lenders to "fill the gap" left by the absence of SBA. It would also allow lenders to adapt effectively to the cash flow restrictions of area farmers, while permitting lenders the flexibility of "salable" loans where lender liquidity is a problem.

Information on the preceding pages was compiled through the use of USDA statistics as reported by the Iowa Crop and Livestock Reporting Service, the Agricultural Stabilization and Conservation Service (ASCS), the Iowa State University Extension Service, and the County Emergency Board.

Computer programs were made available through Iowa State University and were adjusted to fit the conditions of Davis County, Iowa.

Statement of Dr. George D. Irwin
Director, Planning/Analysis and Chief Economist
Farm Credit Administration

Mr. Chairman, I am Dr. George D. Irwin. I am Director of Planning/Analysis as well as Chief Economist for the Farm Credit Administration (FCA), the independent Federal agency that regulates and supervises the cooperatively owned Farm Credit System. We at FCA appreciate the opportunity to appear before this Subcommittee and to offer our perspective on the impact of this year's drought on American farmers. But before giving our assessment of this situation, I would first like to provide you with some background information on the Farm Credit System and the Farm Credit Administration.

FARM CREDIT SYSTEM

The cooperative Farm Credit System consists of federally chartered instrumentalities that operate under authorities contained in the Farm Credit Act of 1971 (P.L. 92-181) and other statutes, most notably the Farm Credit Act Amendments of 1980 (P.L. 96-592). The Farm Credit System provides credit and closely related services to farmers, ranchers, producers and harvesters of aquatic products, agricultural and aquatic cooperatives, rural homeowners, and certain businesses that provide farmers and ranchers with services essential to their on-farm operating needs.

While the U.S. Government provided the initial funding for the various institutions of the Farm Credit System, this "seed capital" has since been repaid. The Farm Credit System is now entirely borrower owned and controlled. Even the costs of the Farm Credit Administration (FCA), the independent Federal agency that examines and supervises this System, are assessed upon the banks it supervises; therefore, it is the System's borrowers and not the taxpayers who pay the expenses of the Farm Credit Administration.

The Farm Credit System, which is the largest single supplier of credit for American agriculture, obtains its loan funds primarily through the sale of securities in the national and international money markets. These securities are not guaranteed by the U.S. Government. They are sold through the System's Federal Farm Credit Funding Corporation in New York City.

The three agricultural credit systems that comprise the Farm Credit System are described below.

The 12 Federal land banks (FLBs) make loans ranging from 5 to 40 years through local Federal land bank associations (FLBAs). These loans must be secured by first liens on farm or rural real estate or their equivalency. Loans may be made for a variety of purposes, including the purchase of farms, farmland, and farm improvements; rural homes and real estate needed for farm-related businesses; the purchase of equipment, machinery, and livestock; refinancing existing mortgages and paying their debts; and financing other needs of the borrower.

The Federal intermediate credit banks (FICBs) provide loan funds to local production credit associations (PCAs) and discount the notes of eligible borrowers given to other financing institutions (OFIs). The FICBs may also participate with production credit associations, commercial banks, and one another in making loans.

PCAs make loans with terms up to 10 years to farmers, ranchers, rural homeowners, and certain farm-related businesses. They also make loans with terms up to 15 years to producers and harvesters of aquatic products. Loans are made for a variety of purposes related to the production of agricultural products, the production and harvesting of aquatic products, the purchase, repair, or maintenance of rural homes, and other requirements of the borrowers.

The banks for cooperatives (BCs) serve agricultural, aquatic, and rural electric cooperatives whose headquarters are within their respective districts. The BCs provide cooperatives with a complete credit service designed to fulfill their specialized needs. The banks for

cooperatives make term loans for purposes such as constructing, remodeling, or expanding facilities, or for purchasing land, buildings, or equipment. Seasonal loans are made to finance current or seasonal assets.

The Governor of the Farm Credit Administration is ultimately responsible for carrying out the policies of the Federal Farm Credit Board by ensuring that the Farm Credit Administration supervises, examines, and regulates the Farm Credit System in the public interest. At the same time, each institution of the System is a borrower-owned and controlled cooperative association. A great deal of responsibility for directing and managing Farm Credit institutions is vested in member-elected boards of directors and their selected managements. FCA supervision is designed to oversee the actions of the district boards to ensure sound management of the banks and associations. Operating decisions are decentralized within the System to the user level, as long as System objectives are respected and sound business is conducted.

The 1983 Drought and Its Effect on Agriculture

In terms of severity and area affected, the 1983 drought has been one of the most damaging in our history. Corn yields are expected to average about 83 bushels per acre this year, down sharply from last year's record level of 115 bushels per acre. Soybean and cotton yields have also been similarly affected in several key states. The 1983 spring wheat harvest was down sharply, but this was due mainly to acreage cutbacks rather than the weather. And the winter wheat crop was large enough to keep total wheat production at a high level. Livestock producers did not escape the effects of the drought either. Many have seen their pastures dry up and, of course, almost all of them are experiencing higher feed costs as a result of the sharp runup in grain prices.

Although the drought had a devastating effect on many farm opera-

tions, other farmers suffered no yield losses and are benefitting from an improved price level. The impact on domestic consumers and our foreign customers was minimized by the very large stocks of feed grains, wheat, soybeans, and cotton that were on hand as a result of bumper crops in 1981 and 1982. Without these large reserves, the economic effects of the drought on farm income, commodity prices, food prices in the domestic sector, and farm exports would have been significantly different.

The Effect on Production

This summer's drought differed from the relatively recent ones of 1974 and 1980 in that this one hit harder into the heart of the Corn Belt and persisted over an ever-expanding area through the latter part of the growing season. Crop prospects into early July were good to excellent with few areas showing either near- or long-term moisture problems. In fact, up to that point most areas were rated as being somewhat above normal for subsoil moisture. The exceptionally good early prospects probably led some producers who had signed up for only the voluntary acreage reduction/paid diversion program to back out in favor of all-out production. And those prospects, coupled with the PIK program, probably led to the significant fall off in producer participation in the Federal Crop Insurance Program.

While the major purpose of this hearing, as we understand it, is to review the impacts of drought conditions, it is not possible to totally separate the impacts of the drought from those of the 1983 farm programs and especially the Payment-in-Kind program. Enrollment data released in the spring showed 57 percent of the 1.5 million farms having a corn/sorghum base enrolled in the 1983 program, and that those farms represented 78 percent of the base acreage. Nearly 40 million of the 101 million acre corn/sorghum base was removed from production in the form of required conservation use acreage. As noted in the table below, the area actually harvested for grain is now estimated at 61.5 million acres --

down 25.9 million from the 87.4 million of 1982.

	Percent of Farms Enrolled	Total 1983 base	Required Conservation Use			Base less RCU	Harvested Acres	
			AR/PD only	PIK farms	Total RCU		1983	1982
			million acres					
Corn/sorghum	57.0	101.2	3.9	35.9	39.8	61.4	61.5	87.4
Barley/oats	29.3	19.6	2.3	—	2.3	17.3	19.0	19.7
Wheat	61.4	91.0	6.4	25.9	32.3	58.7	61.0	78.8
Rice	90.3	4.0	.1	1.7	1.8	2.2	2.2	3.2
Cotton	85.2	15.4	.5	6.3	6.8	8.6	7.4	9.7
Soybeans	—	—	—	—	—	—	61.4	69.8
Totals	—	231.2	13.2	69.8	83.0	148.2	212.5	268.6

On a national basis, corn is the crop most dramatically impacted by the 1983 drought. Even though much of the least productive acreage was idled through the government program, the national yield was only 72 percent of the 1982 yield. Illinois and Indiana had yields only at 60 percent of last year, and a band of states, including Missouri, Kentucky, Tennessee, Virginia, and North Carolina, all had yields averaging near or below 50 percent of those in 1982. The 12 most affected states, which are dominated by several Corn Belt states, had an average yield of 80 bushels, compared with 120 bushels in 1982. The other 36 states managed an average yield of 90 bushels, compared with their 103-bushel average of last year. Both groups had their harvested corn acreage reduced about 28 percent, due to participation in the farm program. Drought caused an additional 2-percent drop in the harvested acres of the 12 most affected states.

Other than the wheat crop, which was made in nearly all states before the hot, dry weather set in, the harvest of most crops was significantly reduced in the same states that had sharp drops in corn yields. From the southern Corn Belt area across Kentucky and Tennessee into the southeastern states, yields for such crops as soybeans, cotton, and tobacco were sharply cut by the weather. Even across this wide band, conditions ranged from only slightly reduced yields as a result of localized rains or irrigation to complete abandonment of planted acres.

Pasture and range conditions deteriorated in most states during July and August with about half the states seeing further worsening during

September. As of July 1, conditions were rated as 88 percent of normal, but this was significantly better than the 81 average for a July 1 during the 1972-81 comparison period. By August 1, the overall rating had fallen to 76, still a point above the 10-year base, but conditions had worsened in 43 states. The deterioration continued in 38 states during August, bringing the overall rating down to 63 percent -- 11 points below the 1972-81 average and 19 points below a year earlier. On a national basis, conditions had improved slightly by October 1 as beneficial rains fell in many areas east of the Rockies during September, especially in the Southeast and the Central Plains. Some hard-hit areas of the Midwest also improved, but extreme drought persisted in West Texas and from Southeastern Missouri through Tennessee and Kentucky into parts of Southern Pennsylvania.

Unlike crop producers, who can generally reduce production and income risks by participating in Federal farm commodity programs and crop insurance programs, livestock producers have a limited number of options for passing off risk. The land used by ranchers and many other producers is often so fragile that grass and hay are the only crops that can be grown -- and these crops are not eligible for the traditional forms of program protection. And if the weather causes producers to lose the grass and the hay, the economic effect can be devastating.

One of the ironies of the 1983 drought is that the total supply of hay is still adequate, despite the weather problems; the problem is that the supplies are in the wrong location, and it simply costs too much -- given low livestock prices -- to move the hay to where it is needed. Thus, some producers are liquidating their herds, because they do not have enough grass and hay to carry their animals through the winter.

Dairy and livestock feeding operations are also feeling the pinch as a result of sharply higher feed costs. It should be noted that many of these financial problems could have been avoided if producers had locked in positive profit margins earlier in the year. Back then, however, the grain supply and price outlook was attractive to them, and many antici-

pated still bigger profits as the year progressed. Obviously, this expectation did not pay off, thanks to the 1983 drought.

The livestock industry now requires major adjustments in output before profitability can be restored. These adjustments are underway in just about every facet of the industry. Consequently, meat supplies, which have been running above year-earlier levels, will likely continue large until next spring, holding prices down. However, once the liquidation process is completed, meat supplies will begin to shrink, which should improve the income prospects of the livestock industry during the second half of 1984.

Wide swings in the supply and price of feedstuffs over the past decade have had a disruptive effect on our livestock cycles. Historically, the cattle and hog cycles have operated in a fairly predictable fashion because, for the most part, feedstuffs have been readily available and relatively low priced. Thus, profits have tended to track the adjustments that producers were making in herd inventories, and these adjustments traditionally followed regular patterns. However, since the early 1970s, the market for feedstuffs has become very volatile, creating greater profit risks. In this less-certain environment, many operators have chosen to reduce the size of the operations. In addition, many have also become very hesitant about expanding their operations even when market signals say that they should.

The Economic Effects of the Drought

In an aggregate sense, the farm economy often prospers during a drought, because farm prices tend to rise more than production drops, thereby increasing farm income to a higher level than it would be otherwise. There is little doubt about the net effect for 1983/84. USDA is now projecting a substantial rise in net farm income for 1983 -- around \$25 billion versus \$22 billion in 1982 -- and further gains are likely in 1984. Looking at specific examples, a year ago the price of

corn was less than \$2.00 per bushel in many areas of the country; today it is hovering near \$4.00 per bushel in some areas, reflecting the 50-percent drop in 1983 production. Similarly, with the one-third decline in soybean output, prices have soared to more than \$9.00 per bushel on several occasions this year, which compares with prices of around \$5.00 per bushel a year ago. Although the price response to the drought has been dramatic, one wonders how high prices might have gone this year if world grain stocks had not been so abundant.

Assessing the impact of a drought on individual farm situations is never easy; however, it is even more difficult this year because of the complexities introduced by the PIK program. For example, it is clear that 1983 has been a year in which some farmers have enjoyed record incomes, while others -- perhaps neighbors just a few miles away -- have experienced near total disaster. The particular outcome mostly depends on whether the farmer participated in the PIK program and when he priced the PIK commodity, whether he was hard hit by the drought, or whether he was primarily involved in livestock production. Generally, PIK participants and those who avoided the drought have fared very well in 1983; those who elected to bypass PIK and were greeted with hot, dry weather this summer have suffered a disaster; and those who were engaged predominantly in livestock production have done poorly regardless of the circumstances.

It should be noted that not all farmers have benefitted from the recent surge in commodity prices. Some of those receiving PIK distributions, as well as many who produced crops this year, forward contracted at least a portion of their grain at prices well below current levels. Other farmers produced very little output because of the drought, and for them, price is almost immaterial. Still others, though, were fortunate to be in areas little affected by the drought, and they have profited substantially from the higher prices.

The impact of these developments on the credit situation of farmers

is equally varied. Some are clearly going to experience improvement. But it is likely that a larger number than in 1983 may be severely stressed, and all lenders will be heavily involved in working with borrowers to achieve the best loan servicing solutions. Our credit monitoring data for the fourth calendar quarter, ending December 31, should begin to provide some indication of credit problems that may be attributable to the drought.

In summary, it is clear that the 1983 drought and its impact on agriculture cannot be described very accurately with generalized, wide-sweeping statements. It is necessary to take a closer look at individual case situations to determine just how severe the drought has been.

With those observations, Mr. Chairman, I conclude my formal statement. If you or any of the Subcommittee members have any follow-up questions, I will be happy to respond at this time.

STATEMENT OF MARVIN DUNCAN, VICE PRESIDENT AND ECONOMIST
FEDERAL RESERVE BANK OF KANSAS CITY

I am pleased to present testimony before this committee of the U.S. Senate. The extent of drought damage and its impact on the farmers and rural communities of America represent important information for the Senate Agriculture Committee. My prepared remarks are in three parts. First, the geographic area affected by drought and the impact of the drought on farm production and producer prices are discussed. Second, the farm credit conditions in the Tenth District and in other parts of the agricultural heartland are outlined. Third, the range of federal credit responses to the drought is examined and the appropriateness of such responses evaluated.

THE DROUGHT AND ITS IMPACT

For several years, favorable weather across the nation's agricultural heartland helped bring in record harvests of major crops. But much of the agricultural heartland was affected by drought in 1983. That drought was particularly severe across the midwestern and southeastern parts of the United States. Some of the most severe effects were experienced in Alabama, Arkansas, Georgia, Illinois, Missouri, and South Carolina.

Although moisture conditions were generally favorable across the country until July, the summer heat and lack of rainfall that lasted into September, put the fall-harvested crops under stress throughout the critical pollinating and filling stages for grain crops. Thus, the drought of 1983 lasted longer and affected crops at more critical stages of development than the droughts in 1974 and 1980.

The drought of 1983 differed from other recent droughts. First, the exposure to summer heat and lack of moisture was unusually long. Second, temperatures were abnormally high for extended periods. Third, the drought area was very large, covering most of the eastern half of the United States. For a number of states, this may have been the most serious drought since the 1930s.

The effect of drought on crops and livestock varied widely across the country. The winter wheat crop was produced under quite favorable circumstances, with forecast U.S. average yields up 11 percent from 1982. Fall-harvested crops, however, were damaged substantially by the drought. Forecast U.S. average yields for corn declined by 28 percent. Projected yields were off 54 percent in Missouri. These reductions in corn yields are particularly dramatic, since farmers had planted only their best acres because of the Payment-In-Kind (PIK) program. As a result, yields would normally have increased. The forecast U.S. average soybean yields are down 23 percent from last year, and the forecast U.S. average cotton yields are down 17 percent.

Range conditions in most of the western United States, on the other hand, were unusually favorable this summer. The major exceptions were in an area of southwestern Texas and in New Mexico, which were unusually hard hit by drought. By fall, however, cattle were being fed supplemental hay in a number of areas across the West.

In determining the impact of drought on farmers, it is not enough to only look at yield reductions and range conditions. When the price effect of lower output is considered, a somewhat less severe drought-damage picture emerges. The December futures price of corn on the Chicago Board of Trade increased 29.5 percent between June 2 and September 6, potentially restoring most of the value of the expected production. November soybean futures prices increased 46.7 percent and cotton futures prices increased 5.2 percent. Futures prices for these crops have been somewhat weaker in recent weeks.

For farmers that participated in the PIK program, the situation was even more encouraging. Since those farmers received PIK grain or cotton based on a proportion of normal production levels, the drought did not affect the return on PIK land. Moreover, except where it was necessary to plant for PIK, both PIK grain and grain produced in 1983 could be marketed at generally very favorable prices. Even wheat prices, despite large stocks and high average yields, moved up somewhat in sympathetic response to higher feed grain prices. Farmers that carried Federal Crop Insurance coverage will find the financial impact of the severe drought further mitigated.

Thus, farmers that were in PIK and did not suffer the most severe crop damage--or that had Federal Crop Insurance--will fare much better than might

at first be expected. Farmers that did not participate in PIK or have Federal Crop Insurance coverage and that suffered severe drought damage will experience a very sharp decline in their cash receipts. On balance, the drought will create a wide disparity of income among farmers. Some will be much better off than expected. Others will undergo serious financial stress.

FARM FINANCIAL CONDITIONS

The discussion in this section draws on preliminary results from the most recent Quarterly Agricultural Credit Survey of the Federal Reserve Bank of Kansas City (Tenth Federal Reserve District), and on similar surveys from other Federal Reserve banks covering the Midwest and Great Plains. Those survey data are augmented by information gathered in a recent telephone survey of Tenth District agricultural lenders. Data from the Farmers Home Administration (FmHA) are also used in evaluating farm financial conditions.

Looking first to agricultural credit conditions in the Tenth Federal Reserve District, loan demand by farmers has declined over the past three months and continues substantially lower than a year earlier. Fund availability continues very favorable and well above year-ago levels. Bankers indicate borrowers are repaying their loan obligations somewhat faster than three months ago and markedly faster than a year ago. Demand for renewals or extensions of farm loans are down slightly from three months ago and sharply lower than a year ago. Collateral requirements by agricultural bankers are slightly greater than three months ago but less than a year earlier. Nearly half the district agricultural bankers responding to the survey continue to seek out new farm loans. It seems clear, however, that banks want new loans of good quality. On balance, preliminary survey data suggest continued improvement in credit conditions during 1983.

Despite some improvement in credit conditions, financial pressures in Tenth District agriculture continue to take their toll of farmers. The proportion of farmers that have left farming because of financial stress in the past six months has been about 2.7 times higher than normal. About three times as many farmers as normal partially liquidated their businesses (sold assets) without going out of business. Exits from farming because of financial stress are expected to remain higher than normal for the next six months, as well.

District farmland values, an important measure of farmer confidence in the future, remain fairly flat after an increase in value in the second quarter of this year. Values are slightly higher than a year ago, however. Little land is changing hands. Lenders appear to be exercising extra forbearance to avoid foreclosing on farmland. Where land is acquired by lenders, it will likely be held several years and resold over time to prevent an undue decline in farm real estate values. Demand factors have been the primary determinants of land values in the post-World War II period. For the next few years, the supply of land on the market also will be an important determinant of land values.

Although credit conditions, as reported by agricultural bankers, appear to have improved slightly, bankers and other lenders to agriculture continue to have many problem loans. While some of these problems may have become more serious as a result of the drought of 1983, the basic problems really preceded that drought. These problems are primarily the result of excessive leverage in the farm businesses, lower than expected farm prices, and inadequate management skills. Thus, lenders and borrowers will likely consider partial liquidation of farm assets in some cases to reduce debt service costs to levels that borrowers can support. In other instances, assets may have to be liquidated completely. Where that is necessary, it is probably best that it be done before the farmer exhausts all the equity in the farm business. Farmers also will need to be more attentive to financial and risk management in their businesses.

Tenth District farmers and political leaders that expect substantial drought losses have begun to call for disaster designations for their counties--a necessary first step to qualifying for emergency disaster loans. All Missouri counties have received the disaster designation. As many as 7 percent of the counties in Colorado, 39 percent in Kansas, 13 percent in Nebraska, 44 percent in New Mexico, and 35 percent in Oklahoma could receive disaster designations. These proportions compare with 100 percent in Indiana, 89 percent in Illinois, 34 percent in Iowa, and 65 percent in Georgia.

Since the corn and soybean harvests are not complete across the agricultural heartland, there is still uncertainty about the likely magnitude of emergency disaster loan applications. To qualify for an emergency disaster

loan, farmers must operate in a county declared by the Secretary of Agriculture to be a disaster area and have suffered at least a 30 percent loss in average production. Farmers then become eligible for FmHA disaster loans to cover actual losses--up to \$500,000. For farmers that do not qualify for credit elsewhere, a 5 percent interest rate will be charged on the first \$100,000 borrowed and an 8 percent rate on the balance in excess of \$100,000. For those with access to credit elsewhere, the interest rate on disaster loans will be 13.75 percent.

Unlike previous years, the FmHA has indicated it will not be making economic emergency loans to offset the financial impact of drought. Disaster payments under the Agricultural Stabilization and Conservation programs will not be available either. On balance, the FmHA is apparently trying to limit its role to that of a lender of last resort to agriculture, addressing only the most serious farm financial problems.

APPROPRIATE PUBLIC RESPONSE TO DROUGHT

A drought as widespread as this year's is bound to raise questions about the appropriate use of public credit in alleviating the accompanying financial stress. About 44 percent of all U.S. counties have requested the disaster designation. It is this designation that triggers initial eligibility for FmHA emergency disaster loans. About 29 percent of all counties have received the disaster designation so far.

The emergency lending program being offered by the FmHA is quite generous. The emergency disaster program is really an entitlement program available to all that meet the minimum qualifications. A large number of farmers can probably show both that they have had a 30 percent cut in production as a result of the drought and that they are unable to obtain credit from commercial lenders. Moreover, for all practical purposes, the FmHA has accepted a de facto moratorium on foreclosures on delinquent loans, citing their willingness to stay with borrowers that have any reasonable expectation of succeeding over the longer term. Indeed, pending federal court action may put a stop to current procedures for foreclosing on farms in 44 states. Statewide class action requests have been filed or granted in the six other states.

Some policymakers and some farmers have urged that even more generous and more comprehensive lending programs be made available to farmers that suffered from the drought. That argument has an intuitive appeal, especially if one believes that an infusion of credit at below market rates and on soft terms is the only protection farmers have against drought and that such intervention will enable drought impacted farmers to return their businesses to financial stability.

That line of reasoning appears to be incorrect, however, at two important points. First, farmers can protect themselves against drought in a number of ways. These include participation in farm programs to obtain target price protection and Commodity Credit Corporation loans, participating in paid land diversion programs such as this year's PLK, carrying Federal Crop Insurance to protect farm cash flow, using futures markets to lock in a favorable price for the product being produced, and--very importantly--conservatively managing the farm business so that it can withstand some adverse years. Second, there is little evidence that emergency credit programs can often turn farm businesses around returning them to financial health. More often than not these programs have granted far more credit than a farmer can reasonably hope to repay. Thus the financial viability of the farm has been buried under the burden of repaying credit that when granted appeared to be a godsend.

The political environment in which aid is dispensed to farmers presents an additional problem for policymakers. Farm finance problems that often have been accumulating for a number of years get included under the rubric of drought damage. For example, recent press coverage would lead one to conclude that most of the financial problems of farmers had their origin in the drought. Yet, in a recent telephone survey of Tenth District bankers, the conclusions were quite different. The bankers indicated that farmers with the most serious financial problems and with more debt than they could service were farmers that had problems previously. Although the drought may have highlighted their problems, the problems did not come as a result of the drought.

For both humanitarian and political reasons, it is appealing to provide a wide range of loans with low interest rates and generous payback provisions. Enough of this has been done in recent years that 14 percent of the nonreal estate debt of the farm sector is held by the FmHA. Much more striking, is the FmHA proportion of nonreal estate debt in some states: Alabama, 28 percent; Arkansas, 29 percent; Georgia, 41 percent; and Mississippi, 46 percent. That market-share profile for the FmHA, when coupled with

delinquency rates of 44 percent (June 30, 1983) for emergency and economic emergency loans, suggests how ineffective such loans have been in achieving their stated purpose. In short, emergency loan programs have probably been viewed and used as though they were in substantial measure grant or income transfer programs. Continued extension of emergency credit to heavily leveraged borrowers should entail recognition that at some point the program ceases to be a credit program and becomes an income transfer program.

Despite this rather discouraging view of government lending programs, some emergency lending is appropriate in the aftermath of drought. Certainly some relatively new entrants into agriculture may be able to use these programs effectively, as may some that have had repeated bouts with natural adversity. But for the most part, emergency lending can easily have a significant income transfer component and, unless carefully targeted, may create more financial problems for farmers and lenders than it cures.

SUMMARY

Farmers in the United States have experienced an unusually widespread and severe drought. Yields of fall-harvested crops have been significantly reduced as a result. Increased prices for some commodities--especially corn and soybeans--hold the potential for largely offsetting the lower yields farmers will receive. But crop losses will adversely affect the cash flow and profitability of farmers that suffered the most severe drought damage and had chosen not to participate in risk management programs, such as PIK and Federal Crop Insurance.

Farm financial problems that many have associated with the drought are largely the result of problems from previous years. If carefully targeted, FmHA lending programs will help save some farm businesses. But for most recipients, the additional credit will simply add to an already crushing debt burden. In those instances, further credit extension by the FmHA may in reality be a grant or income transfer program.

For farmers with realistic prospects of surviving, careful targeting of FmHA lending will be required, along with additional forbearance by other lenders. For some farmers, however, additional credit is not the answer. Their survival will depend on reducing their debt levels--probably by selling some assets--and finding other sources of income.

The views expressed herein are solely those of the author and do not necessarily represent the views of the Federal Reserve Bank of Kansas City or of the Federal Reserve System.

TENNESSEE HEARING

STATEMENT OF HON. DAVID H. PRYOR, A U.S. SENATOR FROM ARKANSAS

Mr. Chairman, I'm pleased you are holding this hearing today to give farmers in the Mid-South an opportunity to provide a first-hand account of the disaster in their parts of the country. I think each member of the Senate Agriculture Committee knows the extent of the disaster, but a field hearing gives the committee the opportunity to hear from more witnesses, and also, see the destruction of this latest tragedy which our farmers are having to deal with.

Mr. Chairman, I know you and other members of our committee are sponsoring S. 1949, the "Drought Relief Act of 1983." I'm a cosponsor of that bill, which is an outgrowth of S. 24, a bill introduced earlier this year, that was reported by our committee, but has never been acted upon by the full Senate. The provision of S. 1949 would be an excellent first step in providing some drought relief to our farmers, Mr. Chairman, particularly the individual loss determination for disaster loans, the deferral authority contained in the bill, and the provision for the emergency feed program. I think there are probably other steps that could be taken, and I'm willing to work with you, Senator Helms, and other members of the Senate in drafting legislation which would deal with the many problems our farmers are facing. The problem, however, is that thus far the Administration has been unwilling to work with us on any new proposals. Apparently, the Secretary of Agriculture, and other officials of his agency, believe sufficient steps are being taken to deal with the drought. I wish this were the case, Mr. Chairman, and I would once again urge them to sit down with us and see if we can't work something out.

Another issue that is of particular concern to me is the fact that 27 counties in Arkansas still haven't received any designation as a disaster area. I received calls daily from farmers in these counties asking why their particular county hasn't been approved. My only answer is—"I don't know why." I questioned Mr. Naylor on this point at the hearing in Washington, on October 20, 1983, and it's my recollection that he said the process should be completed in a week to ten days, which would mean that sometime this week we should know something. I sincerely hope, Mr. Chairman, for our farmer's sake that this process is completed very promptly. Further delay in the declaration process will only compound their problems at a time when they can ill-afford it.

Again, Mr. Chairman, I commend you for holding this field hearing. I know the testimony you will receive today will be informative and very helpful to our committee, and I appreciate the willingness of the witnesses to appear and give their views on the drought and any steps that could be taken to deal with it.

STATEMENT OF HON. DALE BUMPERS, A U.S. SENATOR FROM ARKANSAS

Mr. Chairman: I wish to commend the distinguished Senator from Mississippi for holding this drought hearing today in Memphis. You have shown yourself, repeatedly, to be a staunch and reliable friend of the farmer, and I am pleased to join in your effort to seek the views of our farmers on the present emergency and our government's response.

From one corner of my state to the other, farmers have told me that the drought of 1983 surpassed any drought in recent memory. Destruction to row crops, pastures, and livestock has been widespread in every county in Arkansas. Although some farmers may have been spared substantial damage, every county in Arkansas includes farmers or ranchers whose production was ruined by the drought and who have nowhere else to turn for aid except the government. If they were fortunate enough to live in one of the 48 counties declared thus far to be disaster counties, they may qualify for FmHA assistance. If they should live in a non-declared county, the present Administration has determined that they are not eligible even to attempt to qualify for aid.

Today, 27 counties in Arkansas remain undeclared, even though substantial drought damage is well documented. For reasons undiscernable by most, the Department of Agriculture excluded these counties in its initial disaster declaration. Even taking into account the 30 percent county damage threshold arbitrarily concocted by this Administration, the exclusion of these counties is not justified.

For the record, I am attaching some statistics on the effect of the drought in Arkansas, and especially on the 27 as yet undeclared counties.

Requiring counties to qualify has proven to be inequitable. It is much more equitable to allow each farmer to attempt to qualify for aid individually—having only to depend on his production figures. By establishing county thresholds, the Administration has circumvented the intent of Congress to provide effective and equitable emergency aid for all our farmers who need the government's help.

I am committed to pursuing efforts to re-establish a true emergency aid program. I am pleased to join with you in co-sponsoring S. 1949, a bi-partisan effort to require this Administration to offer emergency loans to all eligible farmers on an individual basis, to provide an emergency feed program for our livestock producers, and to mandate a deferral option for FmHA farmers who are in financial stress through no fault of their own.

I am deeply interested in changes in the law that will make our government programs more responsive to farmers' needs. In the next few days, I intend to introduce legislation that would greatly streamline the FmHA lending programs.

I appreciate your accepting this testimony, and I hope that our efforts to impress upon the Agriculture Secretary and my colleagues in the Senate the gravity of the crisis will be successful. Certainly, our farmers deserve our best efforts.

Arkansas' total crop damage due to the drought is expected to exceed ½ billion dollars, the fifth highest state loss in the country.

In the 27 counties which were undeclared, there are 25,155 producers of which 7,578 suffered drought damage of 50 percent or more to their production—16,130 suffered drought damage of 30 percent or more to their production (7,578—30.1 percent of all producers; 16,130—64.1 percent of all producers).

Only Howard, Madison, and Searcy Counties reported slight drought damage.

The breakdown for the other counties:

County	Number of farmers	Number over 50 percent loss	Number over 30 percent loss
Benton	2,000	1,500	2,000
Clark	494	3	207
Clay	1,200	850	1,150
Cross	1,224	250	1,074
Drew	425	200	370
Franklin	773	0	690
Hempstead ¹	1,350		400
Hot Spring	465	265	465
Independence	1,042	0	1,042
Johnson	606	131	491
Lafayette	1,250	110	310
Lawrence	1,200	725	1,025
Logan	1,720	1,290	1,720
Marion	850	0	700
Miller	450	30	105
Nevada	435	355	355
Newton	450	30	105
Perry	302	50	235
Pansett	950	475	535
Prairie	625	66	307
Pulaski	474	403	474
St. Francis	750	400	500
Union	750	200	750
Yell	980	175	925
Howard	1,160		
Madison	1,700		
Searcy	1,330		
Total	25,155	7,578	16,130

¹ Only 400 reported.

SOYBEANS

Twenty-two of the 27 undeclared counties produce soybeans. Actually yields on the 1,058,020 acres in soybeans in the counties are 15,057,300, down 10,383,180 bushels from the yearly average of 25,440,480 bushels. At \$5 a bushel, this production

loss due to the drought will cost these counties \$52 million; at \$8.50, the loss will be over \$88 million.

Also, 19,500 acres could not be planted in soybeans because of the drought. This is a loss of 468,000 bushels, which at \$5 will cost the counties \$2,340,000; and at \$8.50, \$3,978,000 in additional losses.

COTTON

Ten of the 27 undeclared counties produce cotton. Actual yields on the 58,459 acres in cotton in these counties are 29,150 bales, down 47,664 bales from the yearly average of 76,814 bales, using last year's per acre figure. At a conservative \$350 a bale, the loss to these counties is \$16,682,400.

SORGHUM

Twenty-one of the 27 undeclared counties produce sorghum. Actual yields on the 129,794 acres in sorghum in these counties are 5,582,428 bushels, down 2,475,212 bushels from the yearly average of 8,051,640 bushels. At \$5.25 a cwt (1.8 bu. per cwt) this production loss due to the drought will cost these counties \$7,219,364.

Also, 250 acres in Yell County could not be planted due to drought. Expected production would have been 15,000 bushels. (\$43,748 at \$5.25 a cwt.).

The average yield per acre in these counties is 43 bushels, as compared to the yearly average of 60 bushels.

CORN

Ten of the 27 undeclared counties produce corn. Actual yields on the 8,534 acres in corn in these counties are 601,660 bushels, down 97,832 bushels from the yearly average of 697,542 bushels. At \$3.30 a bushel, this production loss due to the drought will cost these counties \$323,000.

Also, 1,500 acres in Clay County could not be planted due to the drought. Expected production would have been 123,000 bushels (\$405,900 at \$3.30 a bushel).

The average yield per acre in these counties is 70 bushels, as compared to the yearly average of 82 bushels.

STATEMENT OF JIM BUCK ROSS, COMMISSIONER, MISSISSIPPI DEPARTMENT OF AGRICULTURE AND COMMERCE

Mr. Chairman, Senator Cochran, my name is Jim Buck Ross. I am the commissioner of agriculture and commerce for the State of Mississippi. I appreciate your holding the subcommittee hearing on the economic impact of the 1983 drought and how well farmers have coped with it in Memphis today. Furthermore, I appreciate your inviting me to testify on those issues which are of most concern to me.

I understand the objective of the hearing is to determine how effective the disaster and crop insurance programs have been and how effective current emergency loan programs will be in responding to the needs of farmers who are facing serious economic problems as a result of the drought.

Mr. Chairman, I would like to start my presentation by discussing a couple of issues which are of major concern to me. These are deficit spending and our national debt. For the past several years, I have done everything I can to warn of the dangers of high deficit spending by the Federal Government. We now have a national debt of 1 trillion, 382.5 billion dollars. This means that every man, woman and child in the United States owes approximately \$6,285 toward the national debt. The interest on the national debt is estimated to be 1.3 billion dollars for the 1984 fiscal year. This means that every man, woman, and child must pay approximately \$600 each year in interest.

The rate of inflation has been reduced, but I don't think we can say that we have conquered inflation. Excessively high interest rates have been reduced, but interest rates are still higher than they should be. Unemployment seems to be declining and productivity seems to be increasing. This brings us back to the national debt and huge budget deficits, which no one wants but which we cannot agree to eliminate. As you know, the Federal Government spent 795.9 billion dollars in fiscal year 1983. Revenues amounted to 600.5 billion dollars, leaving a deficit of 195.4 billion dollars for the fiscal year ending September 30, 1983.

The ominous character of present trends is seen in the fact that the ratio of Federal debt to the national income, which had fallen from the end of World War II until 1974, is now rising again and it will continue to rise unless prospective deficits are reduced. But if the ratio of debt to national income rises the ratio of interest

burden to national income almost certainly rises. That makes it hard to keep the deficit from rising and the debt from rising faster. The process is cumulative and may reach a point where there is no alternative to repudiation—by inflation or otherwise.

It seems to me that we need a constitutional amendment requiring the Federal Government to spend less than it takes in except in the case of national emergencies. In addition to requiring a balanced budget, there should be provisions to prevent effective tax rates from rising. It does little good to require a balanced budget if increased spending is simply offset by increased taxes. There should also be provisions that provide for the repayment of the national debt over a period of time.

Can we make the budget cuts necessary to accomplish a balanced budget? Every sector of the budget must be considered. It can be done, but it's going to be difficult because over one-third of the U.S. population receives some type of monetary assistance from the Federal Government. With a balanced budget, the struggle over the national income dollar would be intense, but it would be worth it.

Mr. Chairman, agriculture is our Nation's largest industry. The importance of the agricultural economy stems far beyond the 2.4 million farm families in the United States. In 1981, producers purchased \$81.5 billion in products, labor and financing of nonagricultural origin. Including \$13.7 billion of energy and \$19.7 billion of interest on debt. Agricultural producers acquired another \$31.8 billion of products such as livestock and feed with farm origin. In 1981, farmers made direct purchases of \$113.3 billion.

Perhaps more importantly, the productivity of U.S. agricultural producers is the foundation of a food system that employs 22 percent of the U.S. labor force and constitutes 20 percent of the gross national product.

Until the 1930's, Government's role in agriculture was limited largely to supporting research and distributing research results to farmers, functions that were (and are) largely supported by States through land grant universities, agricultural experiment stations and the State-Federal Extension Service. Government involvement in the agricultural economy greatly expanded during the 1930's when agricultural prices plummeted in the face of growing surpluses and sagging demand. During the depression years, the Federal Government implemented a vast array of programs affecting soil conservation, producer-finance and price supports, all of which were geared to improve the farm economy. World War II and the Korean conflict influenced the farm economy heavily by stimulating demand and reducing the supply of labor, forcing a rapid modernization of the U.S. agricultural production plant. In the early 1950's domestic food surpluses combined with shortages in many parts of the world encouraged the passage of Public Law 480, the Food for Peace Act of 1954. For nearly two decades the Food for Peace program was the critical surplus disposal vehicle, either through direct contributions or through long term concessional sale arrangements.

Meanwhile, capital displaced labor as the driving force behind the spreading technology of U.S. agriculture. In 1935 the U.S. had 6.8 million farms, a number that fell to 2.4 million by 1983. During this period the Federal Government's role shifted in agriculture. The Agriculture Act of 1973 introduced the target price concept, a mechanism designed to make U.S. commodities more competitive in the world market while protecting domestic farm income. Indeed, the significant feature of the 1970's was the emergence of the importance of foreign markets to American agriculture and exports skyrocketed from \$6.8 billion in 1970 to \$43.8 billion in 1981. Also, I believe that the Agriculture Act of 1973 introduced ASCS disaster payments for so called program crops.

In response to bulging stocks, escalating budgetary expenditures, and rapidly eroding farm income, the Department of Agriculture fashioned the payments-in-kind (PIK) program late in 1982 which is designed to transfer ownership of Government-held stocks to farmers in exchange for participating in production reduction programs. The response to PIK was enthusiastic as producers, using PIK and other available programs, elected to idle 83 million acres, nearly one-third of the 231 million acres normally planted to wheat, feed grains, cotton and rice.

What would have happened without the payment-in-kind program? For wheat, the bulk of which was harvested before the onslaught of this summer's devastating drought, the result would have been the piling of more surpluses upon markets that were already seriously overburdened. That would have created lower farm prices, massive forfeitures of price support loans to the Commodity Credit Corporation, and increased Government storage costs far into the future.

For the crops of corn and other feed grains, PIK's effect on total production has been overshadowed by the forces of nature. Between the droughts and PIK, corn production this year will be only about half of last year's total. Current supplies of

feed grains are now in far better balance than a year earlier, prices are up, Government storage costs will be down and farmers can look to higher expectations for the future.

For individual farmers, or course, this year was one of widely differing outcomes. Drought-plagued farmers who participated substantially in PIK will have grain and a good price. Those who chose not to enroll in the PIK or crop insurance programs and suffered from the drought face a bleak winter.

This year, far more than others, is a graphic illustration of the historic role of farm programs as a buffer for the shocks that natural disasters can level on our farm economy. Without PIK, corn prices would still be higher than otherwise, but farmers would not have had the grain to sell.

PIK was "kind" to farmers. It gave them the opportunity to stay in business as excessive supplies were reduced. It is a program that dealt with a symptom. Payment-in-kind was a successful short-term response to a long-term problem.

The U.S. has been blessed with agricultural resources capable of an abundant production. Productivity has always been the trademark of American agriculture wherein only three percent of America's population is engaged in farming which not only feeds this country but provides the single largest source of export. In 1981, the U.S. exported more feed grains than any other single item except jet aircraft (commercial and military.)

Ways must be found to cope with emergency situations. Year after year, there are nearly always natural disasters in some parts of the country. Furthermore, natural disasters do not always cover an entire State or an entire county. A good example of this is my home State of Mississippi where the northern approximately two-thirds of the State suffered natural disaster in 1983. In approximately 51 of the 82 counties in Mississippi, crop yields were severely reduced due to drought and high temperatures during the period from the first of July to the middle of September.

It is my understanding that under the current administration there are two primary disaster programs available to the farmer. One is the new and expanded Federal crop insurance program which covers the basic crops in Mississippi such as cotton, corn, wheat, grain sorghum, rice, and soybeans. This program is optional with each farmer and he must pay the premium for the coverage selected. Practically all cropland in Mississippi is classified as eligible for crop insurance, therefore, the "crop disaster payments" formerly made by the Agricultural Stabilization and Conservation Service have been discontinued. Although participation in the Federal crop insurance program in Mississippi is low, apparently the program is working fairly well. One farmer in north Mississippi wrote me "The Federal Crop Insurance has been a life saver for lots of farmers in northeast Mississippi." Obviously one of the most useful risk management tools available today is Federal crop insurance. As I understand, the two major objectives are to make insurance protection available to more farmers and to make it affordable for more farmers. I think we will see a greater use of crop insurance in Mississippi in 1984. The second major disaster program is the emergency loan program administered by the Farmers Home Administration. In counties declared disaster areas, it is my understanding that farmers with credit problems can receive 5 percent loans on the first \$100,000 they borrow and 8 percent loans on any amount over \$100,000.

In regard to other programs and assistance needed to cope with natural disaster situations, I recommend that the emergency livestock feed program administered by ASCS for a number of years be activated. It is my understanding that the Agriculture and Food Act of 1981 provided discretionary authority to the Secretary of Agriculture to give emergency feed aid to both livestock and poultry producers hit by natural disaster. Prior to the 1981 act, the Secretary was authorized to give emergency feed aid only to livestock producers.

In my opinion, livestock and soybean producers are the two commodities in Mississippi hardest hit by the drought. I would like to see a low-interest loan program for those cattle and soybean producers who are affected by the drought and high temperatures this past summer. I would also like to see an emergency livestock feed program authorized for livestock producers.

Mr. Chairman, the American farmer deserves help during a time of crises. Agriculture deserves help. If we can bail-out other countries, if we can help other countries, if we can bail-out big corporations in this country, if we can spend billions on defense, then surely we can help our farmers who have suffered a natural disaster to stay in business. A farmer can have the best research in the world, the best equipment, the best fertilizer, and the best seed, but without good weather he is not going to make a crop. He has no control over the weather.

Mr. Chairman, it has been a real pleasure to be with you, and I appreciate the opportunity to make these comments. Thank you for this privilege.

STATEMENT OF CECIL WILLIAMS, JR., EXECUTIVE VICE PRESIDENT, AGRICULTURAL COUNCIL OF ARKANSAS

My name is Cecil Williams. I am Executive Vice President of the Agricultural Council of Arkansas which is headquartered in West Memphis. The Ag Council serves farmers who produce wheat, soybeans, rice, cotton and feed grains on the flat lands located primarily in the eastern portion of the state.

First, let me thank you for your efforts on farmers' behalf through the years. Your sincere concern is exemplified by your presence here today.

After learning of this hearing, I spent a lot of time on the telephone trying to find out as much as possible about the financial situation of farmers in the eastern half of the state. I already knew about the crop condition. It is very poor except for those producers who were able to irrigate.

We learned again this growing season that during extremely dry years, cotton does better than almost any crop we produce. We found that milo did surprisingly well under drought conditions. Wheat was not bothered by the drought. The soybean crop was the big loser. Yields of five and six bushels per acre are common. A 15-bushel per acre dryland yield is considered very good. Thousands of acres of beans behind wheat will not be harvested because they are so poor. Only the irrigated beans will allow Arkansas to approach its statewide estimate of 18 bushels per acre.

The financial wellbeing of farmers across the United States began to deteriorate with the advent of the Russian grain embargo in 1979. The drought of 1980 served to aggravate the situation, especially in the South. Farmers recovered little from their dire financial plight in 1981 and 1982 because of persistent low prices. One farmer told me that in 1982 his bean, wheat and rice yields were record high for his farm. He said that in spite of the good yields, he lost more money in 1982 than in the drought year of 1980. For the past three years farmers have been hoping to hit the jackpot by producing good yields and selling their crops for favorable prices. The two have not meshed since 1979.

My informal survey revealed that some areas of the state made slight progress towards financial improvement during 1983. However, in other areas farmers tended to regress in their struggle for an improved balance sheet.

Two factors appear paramount in determining whether an area held its own or regressed in 1983. They were the possession and size of cotton and rice bases and the ability to irrigate some or all summer grown crops.

In recent years southeast Arkansas has continued to plant cotton and expanded rice acreage. The area also has a history of widespread irrigation of cotton and soybeans. Consequently, some farmers in the region improved their financial condition and most at least held their own.

Most of the farmland in the traditional rice area of Arkansas can be irrigated and most of the farmers have adequate rice bases. Although irrigation in the area is expensive, the relatively strong prices for soybeans and the PIK program should have kept the area in fairly good shape.

In northeast Arkansas where cotton and rice bases are scarce and small and where there is little irrigation, the financial plight of farmers generally seemed to deteriorate in 1983. Many farmers in this region grow only wheat and beans. The wheat PIK program was announced so late that most wheat growers chose not to plow up standing crops of wheat in order to participate. Wheat and bean prices have not been very good for a number of years, so many of these farmers were already in trouble. Most of them double crop. Most of them would have been better off in 1983 had they not planted soybeans behind wheat. As one person expressed the situation, many growers tried to double up to catch up and they threw craps in 1983.

Naturally, there are exceptions in all regions. Some farmers are in serious trouble in southeast and central Arkansas. While some farmers in northeast Arkansas are doing very well. And there are even a very few farmers who through good fortune and good management will have the most profitable year in their history in 1983.

Everyone I talked with agreed on two things: First, it is impossible to borrow one's self out of debt. And secondly, exports will play a big part in the long term solution to the U.S. farm problem.

After these two items of agreement, there are conflicting opinions. One person thinks the agricultural industry in his area is basically healthy. Another thinks the industry is holding its own in his trade territory.

If you would like a picture of disaster, you should have one of the PCA officials with whom I talked as a witness. He says that foreclosures have been postponed for three years. He is afraid that it will be impossible to delay the inevitable any longer. He is gravely concerned about the domino effect that such events will have.

Concerning disaster loans, everyone feels they should be made to those who need them and have a reasonable chance to repay them. For many, there is great fear that disaster loans delay the inevitable. One large farmer told me the other day that what he needs is a grant. The PCA official is concerned about advancing more disaster loans to farmers who have received SBA or FmHA disaster loans within the past three years. He says few of them are able to handle the loans they already have. He suggests that Congress legislate high yields and \$9.00 per bushel soybean prices for a couple of years if they really want to solve the present farm problem.

One person expressed concern about the lack of competition among lenders for the business of large farmers in some areas. He says that FmHA has rescued several large farmers in his area who found themselves in disagreement with the single lender in the territory.

Although Federal Crop Insurance directors and employees are sensitive to the needs of farmers pertaining to crop insurance, I have serious doubts if the FCIC program can ever be viable without new legislation. Your committee and the Senate passed a good Federal Crop Insurance bill a few years ago and it was emasculated in the House by the insurance industry.

[The followings statements were submitted by Johnny Howarth, president, Mississippi Cattlemen's Association. See p. 60 for the oral statement of Mr. Howarth.]

PETE ARMSTRONG—LEE COUNTY

Other than a few isolated places the grass did not grow in the early part of the summer due to excessive moisture and cold. Then drought set in, and from the first of July until the middle of September we did not have any rain.

One of our hay fields had to be grazed during the summer and no hay was cut. Had 300 acres in coastal that was mature, started cutting hay in June, but because of rain lost that.

Have approximately 20-25 round bales of hay from one field when ordinarily we would have 600. On another place we cut about 50 bales compared to the average yield of 800.

We also reduced our cattle numbers by one-third.

It is doubtful that any farmer in our area cut more than one-third of his normal crop of hay.

These conditions are prevalent throughout northeastern counties of Mississippi.

SIDNEY BRANCH—MONTGOMERY COUNTY

I am in an operation where I have both row crops and beef cattle. I have a fully integrated operation where the grains and feeds that I produce feed my cattle out to slaughter weights.

My farm operation has shown a profit practically every year through 1979. Since 1979, because of extreme drought in 1980, extremely high interest rates in 1981, 1982, and the increase in production expense, I have been in a deficit situation for the past four years.

Even though I have been fortunate enough not to be extremely affected by the drought in 1983, and have had good production yields compared with other farmers in the State I am still unable to make a profit on my farming, and particularly, on my livestock operation. With the built-in cost factor that we have on livestock now, and the comparative low prices we are receiving we are again facing a deficit in 1983.

What I would like to emphasize is that even though I have been more fortunate than most farmers in the State in relation to the rainfall and production I am still going in the hole. There is just no way I can continue to farm with the current situation.

FRED TAYLOR—LAFAYETTE COUNTY

Have checked recently on county-wide conditions with the Extension Service and County Agent.

Personally have had to sell some cattle. Hay crop only 40 percent of last year's.

County-wide, according to the County Agent, soybean production down to 60-70 percent of normal. Normal yields range from 18 to 23 bushels—this year's yield is 8 to 9 bushels.

Cotton is down 40-50 percent.

Hay crop down 50 percent or more. Quality not good.

Cattle numbers down significantly.

We have farmers who have absolutely no winter feed and none available in this area. Definitely reduced winter feeds. Of course, with the normal fall rains we will probably have decent winter grass.

OTIS NICHOLSON, JR.—NESHOMA COUNTY

Real short of hay—no early winter grazing due to lack of moisture. It has been real dry on us.

Much ryegrass planted, but none of it growing because of a continuing lack of moisture.

We're seeing lots of thin, weak cattle coming to the sale barn which is most unusual for this time of year. Cattle are going to have to be fed to survive in our area.

Farmers are reducing cattle herds considerably.

JARVENE SHACKELFORD—TIPPAH COUNTY

These are some observations I have made from the sales management standpoint.

Weaning weights are down at least 30 pounds per animal.

In the Northeast Mississippi area we have about 60 percent loss in our hay crop—75 percent loss on corn silage.

The biggest thing I see, from the sales management standpoint, is that cattle prices are off approximately 20 percent due to economic reasons and drought. Last year cows that were bringing \$1,000 are now bringing \$650-700 in purebred sales because of no feed.

TED KENDALL—HINDS COUNTY

We have suffered economically because of the draught conditions this year. We have had very little rain since June; have probably had a few more isolated showers than a lot of our neighbors to the north. We did have some scattered showers which kept our cotton and soybeans from being a total loss, but have suffered because of the dry weather.

Our pasture conditions for the past 60 days have become quite critical. The calves we are weaning presently are coming in at lighter weights and are actually kind of weak from the dry pastures. This dry pasture situation is going to cause us to have to feed our cattle probably 30 to 45 days earlier than in a normal season.

MICKEY BLACK—LEFLORE COUNTY

I think the main thing in our area is reduced feed crops. Many people are going to have to sell; they will not be able to winter their cattle.

Soybean yields probably reduced one-third.

Cotton not affected too badly, probably 10-20 percent.

25 percent reduction in feed crops.

Even though conditions look favorable at the present time we are still dependent on winter rains to replenish the subsoil. Subsoil moisture has been depleted—another year of drought will bring untold misery and disaster.

Prices way up on any animal feeds that must be purchased. Numbers of people have had to sell part or all of their cattle.

MILTON WALKER—ALCORN COUNTY

Normal crop yields have been reduced significantly as follows:

Soybeans, 60 percent; corn, 65 percent.

Corn has not been affected as much as some of our other crops since it is grown on our best low-lying land.

Wheat, 60 percent; seed sown last fall, cut in spring but cold and wet spring weather hurt.

Milo, 70 percent; cotton 50 percent; hay 45-50 percent.

We experienced such unusual amounts of rain until very late in the spring, then it quit completely.

Extreme weather the entire year. Under such circumstances dry weather hurts ten times as bad.

Many farmers in this County are hurting badly. People who have never been short of feed are selling cattle up to 50 percent of their herds.

HAROLD DORROH—WEBSTER COUNTY

We had no rain from June 28 until the first of September. Cotton got to a point, then all the fruit fell off immature—yield maybe 50 percent.

Hay, 50 percent.

Soybeans—total loss.

Must buy hay to feed cattle for first time ever.

BOB WARREN—COPIAH COUNTY

The rain situation in Copiah County has been sporadic to say the least.

This year's drought has certainly cut the hay crop short. Our producers depending on mid and late summer cuttings at this time were reduced as much as half over most of the County.

Fall and winter grazing is the area where we have been hurt the worst. Many producers who planted early grazing have lost part, if not all, their stands. We do not have much prospect for winter grazing. Consequently, more feed will have to be fed than in a normal year.

Over-all crop yields have been reduced considerably. Many of our producers are having to sell cattle. Many producers have already fed up most of their silage.

AVERY MC KINLEY—ADAMS COUNTY

Here are a few statistics on losses experienced by farmers in Adams County:

6 farmers, soybeans, 100 percent loss.

3 farmers, soybeans, 70-79 percent loss.

3 farmers, soybeans, 60-69 percent loss.

1 farmer, grain sorghum, 70-79 percent loss.

1 farmer, corn, 70-79 percent loss.

Figure about a total loss of \$366,000 in cattle; hogs, 2,500; catfish, \$13,000; 800 acres, hay; 1,500 acres, pasture land; 3,000 acres, wheat; 1,200 acres, cotton.

A. B. STEVENS, JR.—NOXUBEE COUNTY

We had one dry period here in mid-May, then again in all of July and into late August. It was both terribly dry and terribly hot, seriously affecting everything we grew.

Reduced supplies of hay and everything. We are just into our combining. Row crops are definitely affected, worse than grass.

Drought, combined with too much rain in June, prevented planting of much of our cropland.

MALCOLM COMER, JR.—COAHOMA AND TATE COUNTIES

In our cattle operation in Tate County we went from approximately June 22 until the latter part of September without any measurable rainfall. As a result, our hay crop was drastically reduced to approximately 40 percent of normal.

Had we not had a major reduction sale selling off approximately half of our cows in August we would be under severe conditions for feed supply for the coming winter.

Our Coahoma County operation was also affected by the drought, but fortunately we had a few isolated showers on our particular operation. Several of our neighbors were not nearly so lucky.

BILL HARRIS—YAZOO COUNTY

Hay yields cut in half.

Some cotton cut severely.

Grass and hay conditions probably in the last sixty days cut back 60 percent of normal. Last year 10,000 bales from one cutting—this year 4-5,000.

Winter grazing has been non-existent.

Even though we have had rain the past week it will probably be thirty days before we can do any grazing.

DANNY ROSS INGRAM—YALOBUSHA COUNTY

The drought has made a big impact on the entire economy of this area.

Yields on cotton, soybeans and grain sorghum are down. With the continuing dry weather and fall planted grass not growing like it should our feed shortage will continue into the winter.

Throughout the County we are experiencing hay shortages.

JIMMY BRYAN—CLAY COUNTY

Crops have been hurt drastically.

It appears to me there may be a winter shortage of hay since winter grazing crops are running late.

Over-all receipts on cattle sales do not appear to be down significantly from last year. Prices have been hurt some because of accelerating feed costs.

Had little rain since July 4. Got a few showers during the critical period. Conditions not as good as could be, but have seen worse.

BRUCE BRUMFIELD—SUNFLOWER COUNTY

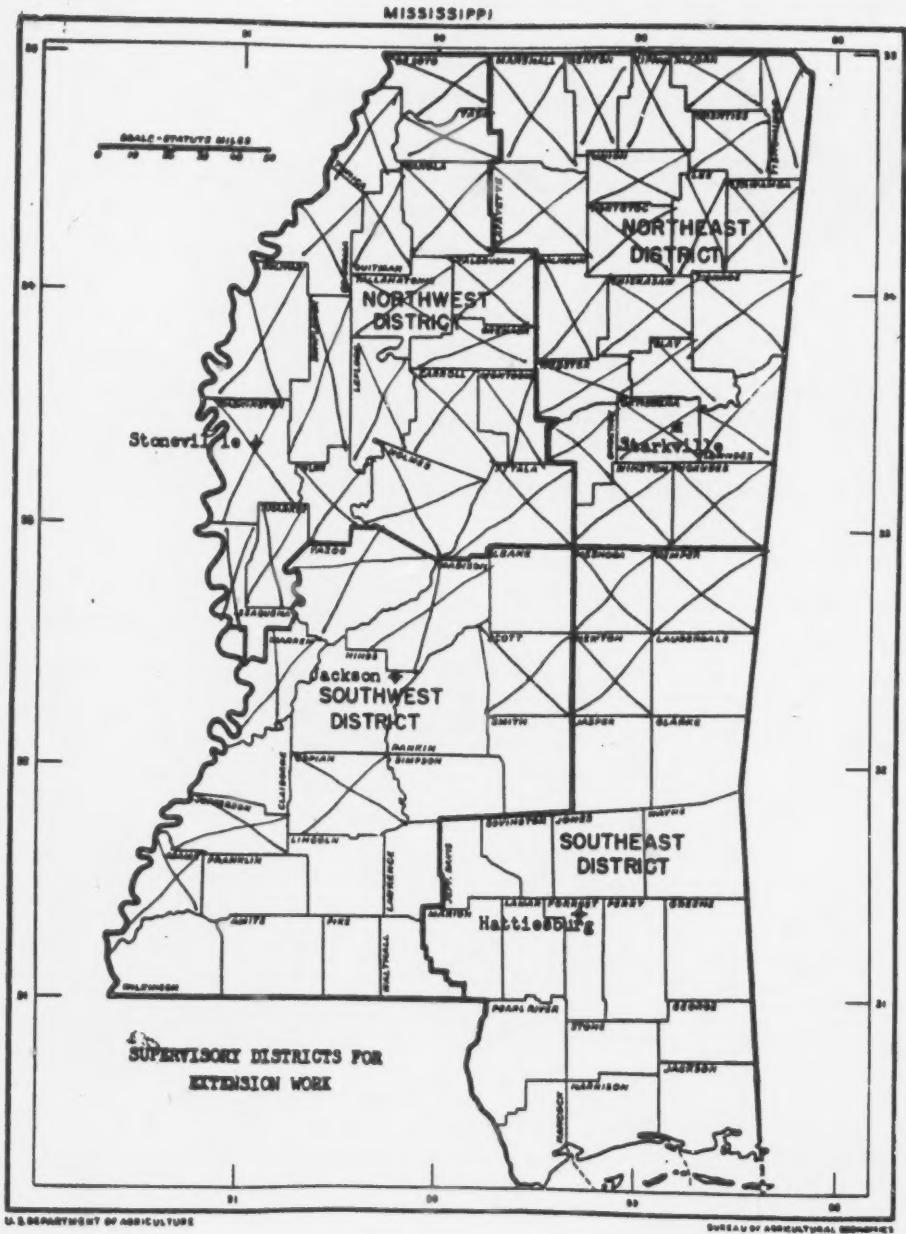
Conditions generally speaking in our area have been very dry through the latter part of the growing season. Yields have very definitely been affected—some areas much much worse than others.

Soybeans down significantly.

Cotton down significantly.

In addition, pastures have been to some extent adequate for grazing, but extremely short of roughage, hay and silage for winter feeding.

Drought has definitely had an adverse impact on the central part of the Delta—showers only spotty.



BEST COPY AVAILABLE

STATEMENT OF MILTON SCOTT, PUBLIC AFFAIRS DEPARTMENT, ARKANSAS FARM
BUREAU

Senator Cochran, we appreciate the opportunity to submit testimony for your hearing on drought damage to Arkansas crops and livestock. We have continually stated, for the record and in letters to our congressional delegation, that we have drought damage in all 75 Arkansas counties. We are aware that there are still 27 counties in Arkansas which have not been designated as having drought damage sufficient enough to receive emergency drought relief. We have asked that all Arkansas counties be designated since all farmers must document that they have at least 30 percent damage in order to qualify for loans and other services. We have submitted to our governor and to others estimates of damage statewide, and as the harvest of crops continues the actual per-acre yields in Arkansas continue to be below earlier estimates. For this and other reasons we continue to urge the Secretary to make all counties in Arkansas eligible for emergency drought assistance.

Although this meeting has been called to hear about drought damage to cropping areas, we want to point out that the livestock and poultry industries have suffered equal damage but have received little attention. There is a severe shortage of hay and other forages normally in abundance in Arkansas and surrounding states. The price of livestock feed has increased dramatically due to the PIK program and drought damage to corn and other crops. There is an opportunity to solve this problem with the heavy surplus and the inevitable amounts of stored grain. An emergency feed-grain program for dairy and livestock farmers will be necessary if many of our farmers are to make it to the spring. Many farmers have already begun to feed hay much earlier than would be normal otherwise; others are liquidating their herds. This segment of our farmers do not understand the tremendous effort by the Department of Agriculture to push the price of feed grains up with no attention being given to the effect on the dairy and livestock industry. We feel strongly that an emergency feed-grain program should also be given consideration by the Secretary.

We appreciate the opportunity to present this testimony to you for the hearing record.

STATEMENT OF STEVE HOLLAND, MISSISSIPPI STATE REPRESENTATIVE-ELECT

Senator Cochran, members of the U.S. Senate Agriculture Committee, other guests and fellow farmers: It is a pleasure to be in Memphis today for this Ag hearing. On the onset, I want to offer my best wishes and appreciation to my personal friend, Senator Cochran, for his able, dedicated representation of the great State of Mississippi in the United States Congress. You know, farmers are, by nature, one of the most optimistic of all professionals. But, back in 1978, when we elected Senator Cochran, I must admit that more than a few farmers were less than sure about what the Senator knew about farming. Well, five years later, I am happy to report that all our doubts have been refuted. We take pride in the fact that the Senator is one of the best intellects in the U.S. Senate. He is a quick study and a workaholic when it comes to serving the people of Mississippi. We especially appreciate his contributions to agriculture and look forward to many more years of his capable service in the U.S. Senate.

My being here today is two-fold. I am a farmer by birth and choice and, as a member of the Mississippi House of Representatives from Lee County, I am here speaking on behalf of all those dedicated men and women in my district and surrounding northeast Mississippi counties who serve in one of the worlds oldest professions.

1983 has been especially tough for most of the farmers in my area. I cite our family farm, Sadie-J Farms, a 3,000 acre soybean and wheat operation, located in Lee and Monroe Counties as an example of where we are. On July 5th, we had bulldozers in the fields pulling combines out as we were trying desperately to wrap up wheat harvest in the mud. Some of the wheat crop had suffered two floods already and we were pretty weary at this point. But doubt turned to optimism as the Sun came out and within a few days we were planting soybeans. Well, that Sun just kept on shining and temperatures were in the 90's for the rest of the month. On the 26th of July, we had to make a decision about further planting. There was simply no moisture to be found. Well, the rest is a matter of record. The next rain of any consequence came 77 days later, on September 22nd. We have begun harvest now and the results are such that any man would want to throw his hands up in disgust. We have our fingers crossed in hopes of at least ½ a crop, but the more we harvest, the

more doubtful that even looks! And we all know survival is virtually impossible at 10 to 12 bushels per acre.

We do a lot of belly aching and head knocking on the back 40 and still don't have any answers. But we do have some specific thoughts on the subject. For sure, there is an immediate emergency. Agriculture, being the largest industry in the world, must rebound and soon. Otherwise, there will ultimately be no real economic recovery in this country. We must have an equal billing with the other major industries of the world and labor. We only have to study the lessons of the past to find out that our country's real wealth is the land and what we produce on it. An all-out effort must be immediately initiated to make available low-interest disaster loans so we can survive this short term crisis. I would encourage expediency in this move, for already hard-pressed farmers don't see any ray of light at the end of the tunnel. We fully realize that all the legislative bodies in the world have absolutely no control over the weather. I guess this is the saddest lot to befall farmers. We so many times are victims of circumstances beyond our control yet we do our dead level best to survive within this framework and, I must say, over the years, we've done a darn good job with the help from our good friends in government and the private sector.

The ultimate solution to our problems must come in the form of a consistent long-range policy for agriculture. We really don't want any free rides, yet we must have some stability and hopefully some guarantee of profit. We need a worthwhile insurance program that will allow a decent profit for our investment. The Federal crop insurance program as it stands simply has become a bureaucratic disaster. Seems a little simplicity would go a long way. Why the stifling regulations, the innumerable chiefs and the precious few Indians. A major overhaul is needed here and we believe this would be a major factor in agricultural recovery. We think some price stability would go a long way as well. \$10 soybeans are a god-send but \$10 soybeans one year and \$5 soybeans the next throws the whole agribusiness family out of kelter. All too often, when beans go up, so do all those supplies we must have to operate such as tractors, equipment, fertilizers, etc. When the prices go down, these fixed costs remain high. That leaves us holding the bag. We simply can't continue to survive under these circumstances.

The long and short is that agriculture must be accepted as an equal partner in the firm of agriculture, industry and labor. Furthermore, agriculture constitutes the biggest market for both labor and industry and is by far their largest producer of raw materials in addition to being the most economical and best supplier the consumer has.

Our numbers are dwindling by the droves and if circumstances don't change, the numbers will increase. Simply put, if we quit, you, the American public don't eat; if we don't buy, you don't sell.

Senator Cochran and friends, we wish you all success as you tackle these monumental tasks facing agriculture. Thanks for allowing me to give these remarks on behalf of my family and all those engaged in agriculture in northeast Mississippi and again thanks for the splendid job you have done representing all Mississippians in the United States Senate.

NATCHEZ, MISS., October 29, 1983.

HON. THAD COCHRAN,
U.S. Senate,
Washington, D.C.

DEAR SENATOR COCHRAN, The drought in my area has been very devastating to the farmers. It has caused most of them to go further in debt with no hopes of ever recovering unless they have a base price on their products or some other means whereby they can have a profit at the end of the year.

The PIK program was another example whereby only a few were benefitted. The cattle business in the Southeastern states being a good example of those that did not benefit. The people in the cattle business have not been able to generate a profit since 1971. This all started when wage and price controls were started, as shown on Exhibit A.

As you can see by the other headings on Exhibit A the Federal Government has indirectly influenced the bad situation that the farming community and farm related businesses have gotten into, along with weather conditions which of course man has no control over.

Exhibit B reflects the conditions in Adams County in Mississippi. This was put together by the Adams County Emergency Board. The Director of FHA did not recommend Adams County for a disaster county, but this was later changed with the report from the County Emergency Board.

An emergency program should be implemented at once to allow land owners to hold on to their land. To be sure that each farmer has an equal opportunity to be financed, the regular procedure be followed by FHA, but that no farmer can be refused financial aid until the County Emergency Board has reviewed the case.

Sincerely,

AVERY H. MCKINLEY, O.D.

[EXHIBIT A]

REASONS THE FARMING INDUSTRY IS IN SUCH TERRIBLE FINANCIAL CONDITION

I. NIXON ADMINISTRATION WAGE AND PRICE CONTROLS

Retail food prices were frozen under Phase I which began August 15, 1971. These controls were continued through Phase II and Phase III, finally ending the restrictions (except beef) on June 12, 1973 at the end of Phase III. The beef price freeze remained in place during part of Phase IV, finally being lifted on September 10, 1973. (Phase IV ended April 30, 1974).

II. JAPANESE EMBARGO ON BEEF IMPORTS

This embargo was placed on February 5, 1974 and ended sometime at the end of June 1975, exact date unknown.

III. GRAIN SHIPMENTS TO SOVIET UNION AFFECTED BY ILA REFUSAL TO LOAD SHIPS DURING FORD ADMINISTRATION

On July 31, 1975 the International Association of Longshoremen said that they would not load grain that was being shipped to the USSR if they felt it would raise the price of grain in the USA. On August 11, 1975 the ILA walked off the job and refused to load grain on Soviet ships. This action was ended October 24, 1975 when the ILA returned to work after completion of some International agreements between the US and the USSR concerning grain.

IV. U.S. AIDS PROGRAMS

Various programs that benefitted other countries that later became competition with the American farmer.

V. CARTER GRAIN EMBARGO ON THE SOVIET UNION FOR THE AFGHANISTAN INVASION

President Carter placed the embargo on January 4, 1980 and it was lifted by President Reagan on April 24, 1981.

VI. STRAUSS-USHIBA BEEF AGREEMENT

Under this, the Japanese agreed to import an additional 10,000 MT of high quality beef, raising the total imports to 16,800 MT. This agreement began in January 1978 and continued through April 1, 1979 when the Multinational Trade Agreement was promulgated.

VII. MULTINATIONAL TRADE AGREEMENT

Under this formal agreement, Japan agreed to import an additional 14,000 MT of beef, raising the new total to an annual amount of 30,800 MT. This agreement took effect on April 1, 1979 and will expire on March 31, 1984. It would be noted that the US has filed a GATT complaint against Japan concerning many items, but not beef. Beef will be added to the GATT complaint March 31, 1984.

[EXHIBIT B]

MINUTES OF MEETING OF USDA ADAMS COUNTY EMERGENCY BOARD

The Adams County USDA Emergency Board met Thursday, October 6, 1983 at 3:30 p.m., in the Adams County ASCS Office with the following present: Charles E. Newman, Jr., Chairperson, ASCS; Bryan D. Stringer, Jr., SCS; Charles D. Wells, CES; Joe T. Dockins, FmHA.

Absent: R. G. Baker, APHIS-VS.

The meeting was called to order by Charles E. Newman, Jr. Chairperson of the committee. Minutes of the previous meeting were given to each member and were approved and submitted.

The committee at the request of the State Emergency Board Chairperson met to supply additional information requested by the SEB on October 5, 1983.

The committee was asked to identify farmers by name and crop(s) included under the production losses from 60 to 100 percent. They are as follows:

100 PERCENT LOSSES

Robert P. Cauthen, Soybeans; Sam Blackman, Soybeans; J. D. Richardson, Soybeans; Trenton Simmons, Soybeans; Hollis Green, Soybeans; Luke Green, Soybeans.

70-79 PERCENT LOSSES

Clyde Williamson, Soybeans, 75 percent; Grain Sorghum, 60 percent; Corn, 40 percent; Joseph W. Parker, Soybeans, 75 percent; Webb G. Carter, Soybeans, 70 percent.

60-69 PERCENT LOSSES

William Stewart, Soybeans, 68 percent; Harold Whittington, Soybeans, 64 percent; Chester Hoover, Soybeans, 60 percent.

The committee was asked to tell who sustained losses to cattle and how the CEB arrived at the loss estimated.

All livestock producers in the county were affected. 12,200 head of cattle in the county (each considered to have lost \$30.00 per head.) The cattle estimate was obtained from the Mississippi Crop and Livestock Reporting Service.

As a result of dry weather these losses were incurred by loss of weight, failure of cattle to breed back, and making cattle more susceptible to disease and insects. Also contributing to cattle loss was the market being depressed because excess cattle being sold due to a shortage of forage.

The committee was asked to tell who owned the hogs and how they were destroyed.

The following people lost hogs due to heat and high humidity: Clyde Cavin, Reginald Gamberi, Lee Stewart, Gary Morgan, James Williams.

The committee was asked who owned the catfish and how the loss occurred.

The following people lost catfish due to oxygen depletion on still hot overcast days: John Williams, John Peterson, Tom K. Armstrong, Robert Williams, Randy Myers, Mark Riley.

The meeting adjourned at 5:00 p.m.

USDA NATURAL DISASTER DAMAGE ASSESSMENT REPORT				1. State MS	2. County Adams	3. Number of Farmers in County Doing Business as an Owner-Operator or Tenant-Operator 430																			
4. Date of Disaster(s) July 1 through August 31, 1983		5. Brief Description of Disaster Drought Excessive high temperature		6. Concurrence with Reported Date 4		<table border="1"> <tr> <th colspan="2">CEB</th> <th colspan="2">SEB</th> </tr> <tr> <th>YES</th> <th>NO</th> <th>YES</th> <th>NO</th> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </table>		CEB		SEB		YES	NO	YES	NO										
CEB		SEB																							
YES	NO	YES	NO																						
7. Crops		8. Acres Normally Grown in County	9. Acres Grown in County in Disaster Year	10. Disaster Year Yield for Acres Grown in Disaster Year	11. Acres not Planted in the Disaster Year	12. Chairperson, CEB (Signature) Date <i>Charles E. Newman Jr.</i> 9 30 83																			
Soybeans		36,460	37,000	16 bu.	1,500	13. Chairperson, SEB (Signature) Date																			
Cotton		3,968	1,915	500 lbs.	1,200	14. Number of Farmers with Production Losses																			
Wheat		2,000	5,700	38 bu.	3,000	100% Losses																			
Winter Grazing		4,500	2,475	3.0 tons	2,025	90 to 99% Losses																			
Hay		2,000	2,000	2.0 tons	800	80 to 89% Losses																			
Pasture		8,225	9,000	3.0 tons	1,500	70 to 79% Losses																			
Corn		1,000	550	30 bu.	450	60 to 69% Losses																			
Grain Sorghum		500	300	26 bu.	200	50 to 59% Losses																			
Sunflowers		200	0	0	0	40 to 49% Losses																			
Livestock and Poultry		15. Number and Kind Destroyed	16. Loss (Dollars)	Farm Buildings and Equipment	17. Number Destroyed	30 to 39% Losses																			
Cattle		0	366,000	Homes	0	20 to 29% Losses																			
Sheep		0	0	Mobile Homes	0	Less than 20% Losses																			
Hogs		100	2,500	Service Buildings	0	Number of Farms with Physical Losses																			
Poultry		0	0	Machinery and Equipment	0	MAJOR																			
Agriculture		13,000	13,000	Other	0	MINOR																			
Remarks:		<table border="1"> <tr> <th colspan="2">Number Damaged</th> <th>18. Loss (Dollars)</th> </tr> <tr> <th>Major</th> <th>Minor</th> <th></th> </tr> <tr> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>0</td> <td>0</td> <td>0</td> </tr> </table>						Number Damaged		18. Loss (Dollars)	Major	Minor		0	0	0	0	0	0	0	0	0	0	0	0
Number Damaged		18. Loss (Dollars)																							
Major	Minor																								
0	0	0																							
0	0	0																							
0	0	0																							
0	0	0																							

BEST COPY AVAILABLE

OCTOBER 31, 1983.

Senator THAD COCHRAN,
Senate Agriculture Committee,
Memphis, Tenn.

I am W. Floyd Crain, president of Southern Crop Insurance Agency, Inc., Jackson, Mississippi. Southern Crop Insurance Agency has a contract with the Federal Crop Insurance Corporation to promote, market and service the Federal Crop Insurance Program in the Jackson region, which consist of Alabama, Arkansas, Louisiana, and Mississippi. Southern Crop Insurance Agents service about 70 percent of all the Crop insurance business in this region. We also have some business in all the surrounding states.

I am also a cotton farmer in Caddo parish, Louisiana and have been a Federal Crop Insurance policy holder for the past eighteen years. For the 1983 crop year I have my cotton insured under the Individual yield coverage plan where I am guaranteed 75 percent of my proven yield at \$.75 per pound. I also participated in the acreage reduction and the P.I.K. program which resulted in a 50 percent reduction in my planted acreage. Even though I have one of the highest cotton yields in the parish, I still have paid a premium for my crop insurance for eighteen years because I believe it is my own responsibility to protect my investment in my farming operation and to preserve my way of life and not the responsibility of the taxpayers. If I had suffered a crop loss in 1983, I would not have suffered financially because I was guaranteed as high as 840 pounds of cotton per acre at \$.75 per pound.

In the Jackson region with only about 18 percent of the farmers participating in the crop insurance program, Federal Crop Insurance will pay out well over \$100,000,000 to insured farmers who suffered from the drought in 1983. They paid out approximately \$120,000,000 in 1982.

I have read several articles where Congressmen, lending institutions, and farm organizations have said that the Federal Crop Insurance program falls short of being a good disaster program and was not available to all farmers. When people are in a position as this where other people listen and believe what they say is true, it is a shame that they will make statements such as this when they don't know the facts.

Crop Insurance is available to all farmers on the major crops grown in the United States and it will cover your investment in producing these crops.

I have listed below some of the reasons that farmers have given over the years as to why they don't participate in the Crop Insurance program:

1. I'm too good a farmer and I won't ever have a crop loss and even if I do, the government will take care of me. Why should I pay a premium for crop insurance when the government will reimplement the A.S.C.S. disaster program if we have a widespread disaster.

2. It's not my money anyway. I'm borrowing from the FmHA. I owe them more now than I could ever repay. If I receive any money from Federal Crop Insurance for a crop loss, it would all go to the FmHA anyway and the county supervisor doesn't care if I take crop insurance or not.

I have been promoting and selling crop insurance for twenty years. It has been very hard to sell the farmers on the concept of crop insurance when the Department of Agriculture and Congress were not sold on it. There has never been enough money appropriated to fully administer the program and when a farmer borrows money from the government through the FmHA, we have had Congressmen to say that it would be putting too much burden on the farmer to ask him to insure his crop so that he might be able to pay back his loan in case of a crop loss.

Many farmers do not even consider crop insurance until they have suffered several losses and they are barely hanging by a string in the farming business. It's too late for crop insurance or anything else at this time, because one crop loss will put them out.

It is hard to evaluate what impact the Federal Crop Insurance program had in alleviating the suffering from crop losses in 1983, when only about 18 percent of the farmers are participating in the program. If you asked this 18 percent I believe you would get a pretty good evaluation.

I sincerely believe when the Department of Agriculture makes a firm commitment to the crop insurance program and the American farmer realizes that the free lunch is over (if it is), they will start accepting their own responsibility in protecting their investment in their farming operations, then the Federal Crop Insurance program will have a great impact in alleviating the suffering from crop losses in the this country. Crop insurance, if used as it should be, will keep the American farm-

er's operation in the black and will eliminate the need for all the other government disaster assistance programs.

Sincerely,

W. FLOYD CRAIN.

